Prince
Edward
Island

Report of the
AUDITOR GENERAL

Fiscal Year Ended
31 March 1987

OFFICE OF THE AUDITOR GENERAL

PROVINCE OF PRINCE EDWARD ISLAND

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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my annual report to the 1988 Session of the Legislative Assembly.

Respectfully submitted,

J. Wayne Murphy

J. Wayne Murphy, C.A.
Auditor General

Charlottetown
Prince Edward Island
February 10, 1988

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INTRODUCTION

GENERAL

Under Section 16 of the Audit Act, I am required to report annually to the Legislative Assembly. This report fulfills this requirement and provides the members of the Legislative Assembly with the summary results of the work performed during the year.

Although the report is for the fiscal year ended March 31, 1987 and deals substantially with matters pertaining to that period, I have made comments in some sections that also apply to the current year.

BASIS OF REPORTING

This report is based on the observations and recommendations made to departments and agencies of government selected for audit during the year.

It is important to note that of necessity this report concentrates mainly on deficiencies observed and does not elaborate on the many instances where no significant problems were identified.

On the other hand, unwarranted comfort should not be taken from my lack of comment on a particular subject. The audit process itself has limitations and it is not practical to attempt to audit all areas of government each year.

In the majority of cases, the observations and recommendations made as a result of our audits have been well received and acted upon by departments and agencies.

The existence of a constructive relationship between my office and those we audit, together with my independent report to the Legislative Assembly, provides a good combination to promote what this office is trying to achieve - accountability and improved management of public funds.

SCOPE AND ACKNOWLEDGEMENTS

The audit program this year covered financial statement audits of the Public Accounts of the Province, 11 crown agencies and 6 special purpose funds. In-depth reviews were done on two crown agencies and several program audits and government-wide studies were also completed. In all our audits we have received good cooperation from Ministers, Deputy Ministers, Heads of Crown Corporations and other government officials. I wish to acknowledge this cooperation and also the assistance provided by the Legislative Audit Committee in the administration of my office.

Finally, I would like to express appreciation to my staff for their hard work and support.

MATTERS OF SPECIAL INTEREST

1. DEFICITS AND NET DEBT

INTRODUCTION

1.1 Last year we provided information on the provincial deficit for the Consolidated Fund and the effect that debt charges were having on current budgets. Sufficient interest was expressed by the Public Accounts Committee and others to warrant an update on this important subject.

CURRENT DEFICIT

1.2 The current account deficit is the excess of current expenditures over current revenues. Last year it was reported that the Province was incurring increasingly large deficits especially in recent years. The current account deficit reported in the Public Accounts for the year ended March 31, 1987 is $19 million.

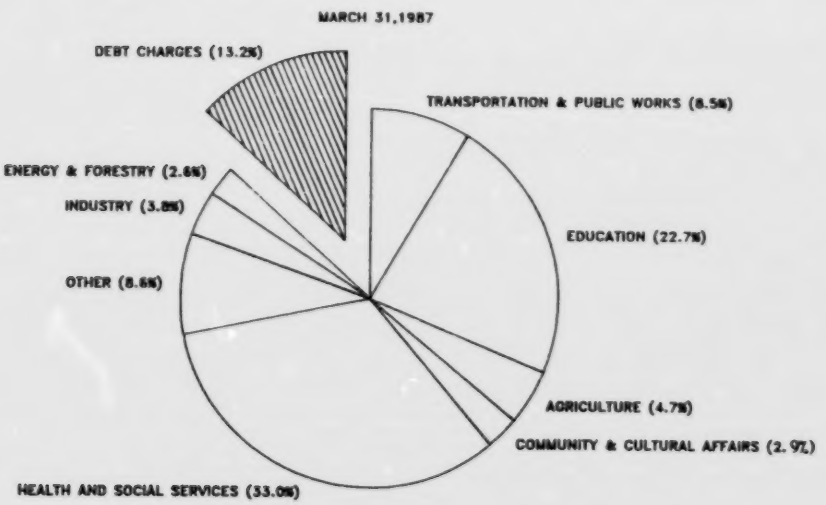
1.3 The **projected** current account deficit for March 31, 1988 is expected to be lower than the budgeted deficit of $9.7 million. The reason for the decline is that revenues are estimated to increase by a greater percentage than expenditures.

1.4 This is in sharp contrast to the previous year and a reversal of the trend that was developing.

1.5 As long as deficits continue to be incurred, the Province has to borrow the money to cover the shortfall. This vicious circle results in mounting debt and interest costs that are absorbing a large slice of the Provincial budget every year. The current debt charges of $73 million are now consuming as much of our Provincial budget as the budgets of **eight** government departments **combined.** As indicated in **Exhibit 1.1** debt charges are the third largest item in the budget.

EXHIBIT 1.1

Debt Charges as a Percent of Total Budget



CAPITAL DEFICITS

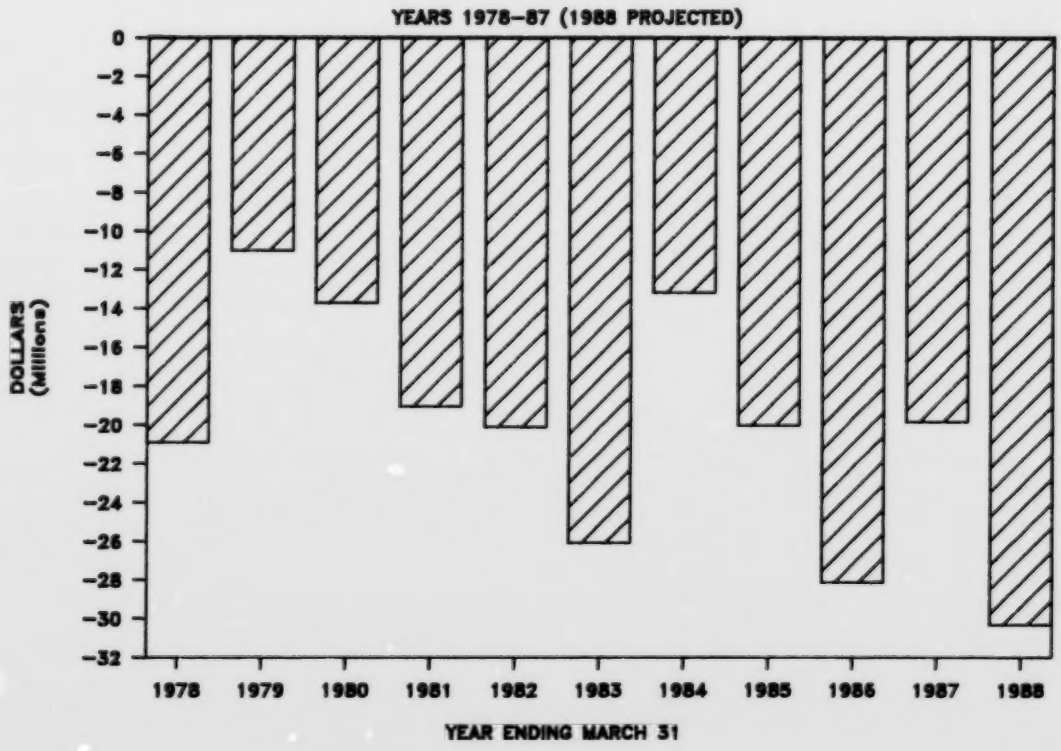
1.6 Capital deficits are the excess of capital expenditures over capital revenue. Capital expenditures include those incurred for the acquisition, construction or capital improvement of government fixed assets.

1.7 In the past the focus has been on current account deficits because they are the result of the ongoing operating costs of government. It should be emphasized that capital account deficits are being incurred annually and that these too must be financed with additional debt.

1.8 As can be seen in **Exhibit 1.2**, the capital account deficit was $19.8 million in 1986-87 and is projected to be $30.3 million for 1987-88, an increase of 53 percent. The increase is due to an increase in highway paving and the construction of the Young Offenders' Facility.

EXHIBIT 1.2

Capital Account Deficit



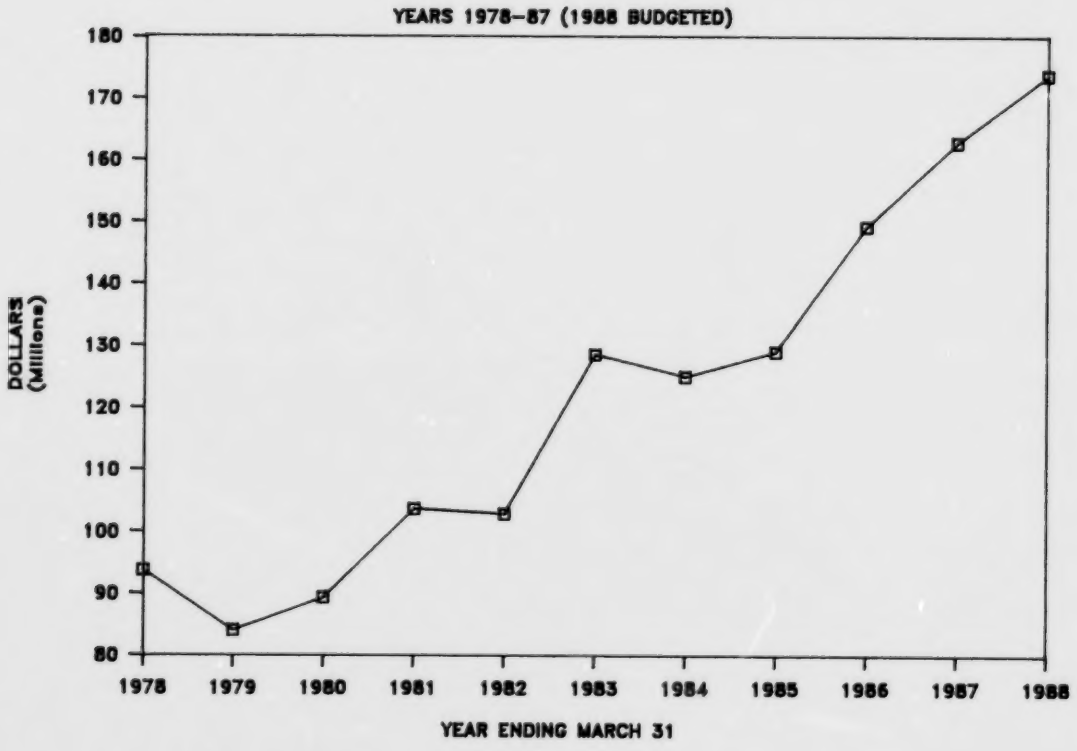
NET DEBT

1.9 Net debt is defined as the excess of liabilities over assets. The increase in net debt is comprised of the current account deficit and capital account deficit less the increase in the sinking fund. The net debt is the most useful long term indicator of the Province's financial performance because it shows how much has been borrowed in the past that must be repaid from future budgets.

1.10 As can be seen in **Exhibit 1.3**, Prince Edward Island's net debt increased from $94 million in 1978 to a budgeted $174 million in 1988 which represents an increase of 85 percent.

EXHIBIT 1.3

Net Debt



1.11 To put this in understandable terms every individual in Prince Edward Island owes $1,300 because of past deficits incurred by the Province.

1.12 The projected decline in the current deficit is encouraging and relative to most other provinces our financial position is good. However, financial discipline will be required to continue the progress made this year.

2. INFORMATION FOR FINANCIAL MANAGEMENT AND ACCOUNTABILITY

INTRODUCTION

2.1 Members of the Legislative Assembly need information about government not only to make decisions on resource allocations and hold government accountable to those decisions, but also to consider proposed legislation, and fulfil their responsibilities to their constituents. It is no less important for government managers who also need this kind of information to make informed decisions.

2.2 There is a substantial amount of information available on government activities and operations. Although the quantity of information is steadily increasing, legislators and government managers do not necessarily receive the best quality or most clearly presented information.

2.3 The issue of the quality of information MLA's receive, and overall accountability reporting by governments is the subject of much recent study and discussion.

2.4 A Federal Government Reporting Study was completed jointly by the Office of the Auditor General and the United States General Accounting Office in February 1986. The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants has recently issued statements dealing with this topic. All these efforts are directed at enhancing accountability reporting by governments and emphasize the importance of providing not only sufficient information to MLA's but also information that is reliable, useful, clearly presented, understandable, timely and consistent.

2.5 Three primary sources of information currently available to MLA's include the **Public Accounts, Budget Estimates,** and **Departmental Annual Reports**. The Public Accounts represents the financial reporting of the government to the Legislature and includes the annual audited financial statements of the Province. The Budget Estimates is the vehicle through which the Legislature allocates public resources and holds the government accountable for the use of those resources. Departmental Annual Reports highlight the activities and accomplishments of each government department.

2.6 This section contains a number of observations and recommendations to improve reporting. Although agreement has not been reached on all issues, we were encouraged by the cooperation and willingness of senior officials in the Department of Finance and Treasury Board to consider our suggested improvements in the presentation of these documents.

SCOPE AND METHODOLOGY

2.7 We reviewed the Public Accounts for March 31, 1986, the Budget Estimates and Departmental Annual Reports to determine if these reports provide users with sufficient useful information on a timely basis.

2.8 We examined similar reports in other Provinces to compare disclosure, format, and overall presentation. As part of the process we also interviewed members of the 1986 Public Accounts Committee to obtain their views on the quality and usefulness of information provided in the Public Accounts, Budget Estimates and Departmental Annual Reports. We held discussions with the Deputy Minister of Finance, the Comptroller and Treasury Board staff.

PUBLIC ACCOUNTS

SUMMARY ANNUAL FINANCIAL REPORT

2.9 A major part of the Federal Government Reporting Study previously mentioned involved surveying users of government financial information. A significant finding was that all users including legislators and government managers expressed a need for a concise Summary Annual Financial Report. Our interviews with members of the Public Accounts Committee also revealed that there is a need for more concise summary level reporting by government.

2.10 A summary annual report would not only provide basic government financial information but also supplementary information on common measures of the performance of the economy, such as inflation, employment, net debt and gross domestic product. To permit information to be captured quickly, it would include graphs, charts, financial and economic highlights and references to more detailed information sources.

2.11 The Department of Finance publishes an Annual Statistical Review containing in-depth statistics on the provincial economy plus a wide variety of data on socio-economic variables. However, the information is not adequately combined or linked with the Province's financial results to provide a concise yet informative summary report on the financial and economic affairs of the Province.

2.12 There is a trend in recent years towards this type of reporting. Four other provinces produce a Summary Annual Financial Report. A Summary Annual Financial Report would be very useful for legislators and government managers. It would highlight various financial and economic trends and assist them in interpreting the financial affairs of government in relation to the economy of the Province.

2.13 In our audit report to the Department of Finance, we provided illustrative examples of information that could be considered for inclusion in a Summary Annual Financial Report. The Deputy Minister of Finance intends to follow up on this matter in the coming year.

2.14 A Summary Annual Financial Report should be prepared and tabled as part of the Public Accounts.

REPORTING ENTITY

2.15 The Public Sector Accounting and Auditing Committee is currently undertaking a project to define the reporting entity for provincial governments. The Public Accounts of Prince Edward Island reports on the Consolidated Fund and a separate entity combining the Consolidated Fund with certain Crown Corporations, Agencies and Boards (All Funds). The names used in the Public Accounts to refer to these entities can be confusing for the reader because there is a separate Consolidated Fund as well as consolidated financial statements. There would be merit in exploring alternative names for these entities to eliminate some of the confusion that now exists.

2.16 The notes to the financial statements list separately the crown corporations and agencies that are consolidated and those that are excluded from consolidation. However, the basis for including and excluding certain crown corporations is not disclosed.

2.17 We previously reported that the method of presentation does not always clearly distinguish the two entities being reported on. Improvements have been made in this year's Public Accounts.

2.18 **Consideration should be given to changing the name of the Consolidated Fund to the General Fund.**

2.19 **The basis for including or excluding certain crown corporations, agencies and boards from consolidation should be documented and included as part of the Public Accounts.**

FORMAT, DISCLOSURE AND OVERALL PRESENTATION

2.20 To enhance its usefulness, government financial information should be clearly presented and understandable. Information presented in the Public Accounts could be better organized. The financial statements and supplementary information reported were not clearly segregated for the two entities being reported on. There were inconsistencies in the usage of schedules versus notes or statements to present information. For some statements there was inadequate reference to supplementary information. Recommendations made on a number of these items have already been implemented in this year's Public Accounts.

2.21 With the wide variety of information now reported, the readability of the Public Accounts could be improved if it was issued in more than one volume. In addition, it does not include an introduction to give the reader a good overview and describe briefly its content and organization.

2.22 **Consideration should be given to issuing the Public Accounts in a different format. The Summary Annual Financial Report previously recommended should be contained in a separate document. The remaining information could be issued in two volumes with one volume containing only the financial statements of the crown corporations and other agencies.**

PUBLIC SECTOR ACCOUNTING AND AUDITING COMMITTEE

2.23 The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants issues statements with respect to matters of accounting and auditing in the public sector. The objective of these statements is to make recommendations that will serve to improve and harmonize government financial reporting, accounting, and auditing practices. To date, the Committee has issued three statements.

2.24 Public Sector Accounting Statement 3 issued in November 1986 deals with General Standards of Financial Statement Presentation for Governments, and includes 35 recommendations.

2.25 From our review of the Province's financial statements, 24 of these have been implemented, 4 are partially implemented and 7 are still outstanding. The PSAAC recommendations that have not been fully implemented are outlined in the following paragraphs together with our comments and recommendations.

2.26 *The financial statements of government should be clearly identified and should include or be accompanied by an acknowledgement of the government's responsibility for their preparation.*

Although the financial statements of the Province are presented to the Legislature by the Minister of Finance, there is no specific reference to government's responsibility for their preparation.

2.27 **We recommend that a Statement of Responsibility be prepared and included as part of the Public Accounts.**

2.28 *Notes and schedules that are integral to the financial statements should be clearly identified.*

We have commented on this issue in the previous section on Format, Disclosure and Overall Presentation.

2.29 *Financial statements should be issued on a timely basis.*

Government financial statements are not normally issued until approximately ten months after the fiscal year end. We recognize that the presentation of this information coincides with the opening of the Legislature and there are other practical constraints such as the time involved in preparing and auditing the financial statements. However, the usefulness of the information diminishes as time elapses.

2.30 **Our office and the Department of Finance intend to further discuss this issue.**

2.31 *The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as: accounts payable and accrued liabilities; employee pension obligations; borrowings; and loans and advances from other governments.*

The Public Sector Accounting and Auditing Committee is working on a project entitled "Accounting for Employee Pensions Obligations in Government Financial Statements", which should be finalized in the near future. The 1986 Public Accounts did not disclose the unfunded liability for the MLA Pension Fund or the Teachers' Superannuation Fund. However, our recommendation that this information be included has been implemented this year.

2.32 *Financial statements should disclose adequate information about the nature and terms of a government's liabilities.*

We noted during our review of the financial statements that there is insufficient disclosure on loans payable.

2.33 **Summary information on interest rates and maturity dates should be disclosed for loans payable.**

2.34 *The statement of financial position should report a government's financial assets at the end of the accounting period segregated by main classifications, such as: cash and temporary investments; revenues receivable; inventories for resale; loans and advances to other governments; other loans and advances; and investments.*

Financial assets are those assets on hand at the end of an accounting period which could provide resources to discharge existing liabilities or finance future operations. The Statement of Financial Position includes inventories which are not for resale and therefore not a financial asset. For the year ended March 31, 1987 the recorded amount of inventory was $3.5 million. The Department of Finance does not intend to comply with this recommendation.

2.35 *Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances.*

There is insufficient disclosure on the nature and terms of loans receivable and investment in leases.

2.36 **Summary information on interest rates and maturity dates should be disclosed for investment in leases and loans receivable.**

2.37 *Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value.*

The Statement of Financial Position for the year ended March 31, 1987 includes capital advances totalling $81 million. The capital advances will be reduced as future appropriations are made to schools and hospitals by the Province. If the Province is to comply with this recommendation, capital advances of $81 million would be written off and therefore net debt would increase by the same amount.

2.38 **The Department of Finance and our office have not completed an assessment of this recommendation.**

2.39 *Financial statements should disclose information to describe a government's material contingencies at the end of the accounting period.*

The notes to the financial statements did not provide sufficient information on the Province's commitment to purchase the assets of Harbourside Development Ltd. This has been corrected in the 1987 Public Accounts.

2.40 *Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period.*

A research study is now being conducted by the Public Sector Accounting and Auditing Committee on the most appropriate presentation of a government's physical assets.

2.41 Currently the Public Accounts of Prince Edward Island does not provide information to describe the government's acquired physical assets on hand at the end of the year. Instead, a separate statement is presented showing net capital expenditures for the preceding twenty year period.

2.42 This statement could be misleading for a number reasons. Firstly, the cost of the same physical asset or structure could be included more than once, for example, highways replaced within a twenty year period. Secondly, there is no description in the Public Accounts of what is included as a capital expenditure.

2.43 The notes to the financial statements should include a clear definition of capital expenditures.

2.44 An appropriate presentation of acquired physical assets should be considered after the Public Sector Accounting and Auditing research study on this subject is completed.

2.45 *Financial statements should disclose a government's expenditures of the accounting period by object of expenditure.*

The Public Accounts of Prince Edward Island includes detailed expenditure information by department. However, there is no separate breakdown showing either for total government or by department, expenditures by object or major type of resources acquired such as salaries and benefits, supplies, professional services, interest, etc.

2.46 Supplementary information should be provided on expenditure by object or major type. This information should be presented by department and in total for government.

OUTSTANDING ISSUES

2.47 While there are some areas of disagreement with the Department of Finance, we have received an overall positive response to our recommendations.

BUDGET ESTIMATES

ESTIMATES CONTENT

2.48 A significant difference between our Budget Estimates and those of the Federal Government and most of the other provinces is that the latter include more program information. Program information is useful in providing a basic understanding of government programs and the context in which they operate. It also assists legislators in assessing the program's achievement of objectives compared to expected results.

2.49 The program information presented in the other provinces' Budget Estimates ranged from a brief program description to a detailed reporting of program objectives, activities, method of delivery, expenditures and authority for establishment. Only one other province did not present some form of program description in its Estimates.

2.50 The presentation of the Federal Government estimates have recently been revised to provide more and better program information. In addition, our interviews with members of the Public Accounts Committee revealed the need for additional program information.

2.51 More program information should be provided with the Budget Estimates. It could be included in the main Estimates or provided as supplementary information in a separate document.

LEGAL AUTHORITY

2.52 The Budget Estimates are presented to the Legislative Assembly and approved with the passing of the Appropriation Act. The Appropriation Act provides one approved budget figure for each Department and Crown Corporation with the exception of Education which is subdivided into four amounts.

2.53 Generally, the government follows the expenditure estimates as presented. However, transfers from one program to another, within an appropriation vote, are permitted without further approval by the Legislature. Treasury Board Policy on Appropriation Transfers permits a transfer on the approval of the budget director if it "does not substantially change the intent of the department or agency's total programming". Where a transfer results in a substantial program change, it must have the approval of Treasury Board. It is evident that some program spending plans presented in the Estimates are subsequently revised through the process of appropriation transfers which does not involve the Legislative Assembly.

2.54 Six of the eleven Estimates documents we reviewed for other jurisdictions, approved expenditures at the program or activity level. In one other case, the expenditures were voted at the divisional level of each department. Regardless of how a program or division is defined, in all of these provinces there is more than one vote per department. While the voting level must be broad in order to be workable, a further breakdown than what currently exists in our Estimates would enhance budgetary control.

2.55 The Budget Estimates should be approved by the Legislative Assembly at a more detailed level.

HUMAN RESOURCES

2.56 Salaries are one of the most important and costly expenditures contained in the Estimates.

2.57 Human Resources are currently presented in the Budget Estimates in terms of a salary amount by program. Only one other budget document that we reviewed did not report human resources in number of positions or person years.

2.58 The Budget Estimates should be revised to include human resource information by position and person years at the program level.

CONSISTENCY

2.59 Our review of the Budget Estimates revealed that presentation of budget information for crown corporations is not consistent.

2.60 The majority of crown corporations are budgeted on a net expenditure basis. A summary showing the main categories of expenditures is included for each corporation but any revenue is usually netted against one of the expenditure accounts. Similarly, where the operations are expected to result in a net revenue for the Province, for example, the PEI Liquor Control Commission, there is only a one line item in the revenue estimates and no disclosure of the related expenditures. For the PEI Grain Elevators, where revenues are expected to equal expenditures, there is no information presented in the Budget Estimates.

2.61 Members of the Legislative Assembly are being asked to vote on the allocation of resources to the crown corporation just as they are to each department. Both the revenues and program expenditures are necessary if MLA's are to assess the impact of their resource allocation decisions.

2.62 The Budget Estimates should disclose for each crown corporation a breakdown of revenues and expenditures to arrive at a net required appropriation.

CAPITAL EXPENDITURES

2.63 Even though many capital projects extend over a number of years, the Budget Estimates present only the current year's outlay. For multi-year projects, total project expenditure information is required if legislators are to properly assess and approve the current years portion.

2.64 The current and future years expenditure requirements for multi-year capital projects should be provided in the Estimates.

SUMMARY INFORMATION

2.65 One type of summary information that is included in many provincial Budget Estimates is a summary by budget object or major category of expenditure such as salaries, equipment, travel and professional services. This information is helpful in providing legislators with a broad view of where the budget dollars are going and the relationship between the various types of expenditures.

2.66 A summary by major category of expenditure by department and for total government should be included in the Budget Estimates.

REVENUE ESTIMATES

2.67 The PEI Budget Estimates provide a revenue summary as well as detailed revenue estimates by source. All of the eight other provincial revenue estimates that we reviewed presented revenue by **department** as well as revenue by **source**. This information is helpful in the consideration of the fiscal activities of each department.

2.68 The Budget Estimates should provide revenue estimates by department as well as by source.

2.69 Our detailed report on the Budget Estimates has been forwarded to Treasury Board officials and they are in general agreement with our recommendations.

DEPARTMENTAL ANNUAL REPORTS

LEGAL REQUIREMENTS

2.70 There is no legal requirement for an overall report to be prepared by each department annually. However, certain legislation requires that information related to its administration be presented to the legislature each year. In some cases, these legal reporting requirements are covered in the annual report of the department which is responsible for the Act.

2.71 Departmental annual reports can provide the Legislature and others with a clear picture of the objectives, programs and achievements of each department.

2.72 Each department should prepare and present to the Legislature an annual report on overall departmental activities.

ANNUAL REPORT CONTENT

2.73 Members of the public and most members of the Legislature do not have a detailed knowledge of the purpose and responsibilities of each of the departments. This information is necessary to allow readers of the annual report to put the information on programs and resources administered by the department in perspective.

2.74 There were deficiencies in the amount and usefulness of information reported by some departments, and inconsistencies in overall report content from one department to another. The reports seldom described departmental objectives. All reports described program activities, however, program goals were not always stated nor quantified making it difficult to assess program performance including effects on client groups served. Some annual reports do not disclose expenditure by program, and where these expenditures are indicated, the human, capital, and other resources expended to achieve program goals are not always disclosed.

2.75 Treasury Board should establish guidelines setting minimum content requirements for departmental annual reports.

TIMING OF THE REPORTS

2.76 During our review we considered the timeliness of the annual reports. Some reports were prepared on a calendar year basis, some on a fiscal year basis and one covering the period July 1 to June 30. In our opinion, it is important to have all departmental annual reports correspond to the fiscal year of government.

2.77 The Legislature provides funding to each department on a fiscal year basis, and the primary purpose of a departmental annual report is to account for what was done with those funds in that fiscal period. Furthermore, if all departments reported on a consistent basis, both the Legislature and the public could see a more clear picture of overall government activities.

2.78 Departmental annual reports should be prepared on a fiscal year basis.

2.79 We have discussed our detailed report on departmental annual reports with Treasury Board staff and they are considering our recommendations.

3. PLANNING AND PROGRAM EVALUATION

PLANNING

3.1 Last year I reported that an integrated approach to planning did not exist. The necessity for strategic planning by Government, with a budget exceeding a **half billion dollars**, was also emphasized.

3.2 This year major strides have been made in implementing a strategic planning process for Government. Under the leadership of Policy Board, guidelines were issued to departments and agencies which required the identification of strategic and critical issues.

3.3 Policy Board staff prepared summaries of each overview, and organized a series of day-long sessions at which each department and agency made its presentation.

3.4 This process resulted in over 80 matters being referred to Executive Council for decisions and direction to the departments and agencies concerned.

3.5 To support these efforts and make the whole process more effective, the planning activities carried out by departments and agencies need to be improved. Our individual audits of departments and agencies continue to identify improvements that are required.

3.6 Because of the diversity of government departments and programs and the differing attitudes towards planning, a variety of practices exist. Often there is a wide discrepancy between what is required, what is practical, and what is actually being done.

3.7 No matter what the circumstances, a planning process is required and there are minimum procedures that must be carried out. In performing our audits, we have made recommendations to departments and agencies to improve planning approaches.

3.8 There is a need to establish minimum standards and guidelines to assist departments and agencies in identifying the planning activities suitable to their circumstances.

3.9 **This should be coordinated by Treasury Board and involve Policy Board and line departments and agencies.** My office is more than willing to participate.

PROGRAM EVALUATION

3.10 Program evaluation is a difficult issue which government has yet to come to grips with. Part of the problem is that there is no universally accepted definition of program evaluation resulting in varying interpretations of what it comprises, and even greater differences of opinion on how it should be carried out.

3.11 Until recently, Treasury Board was satisfied with the evaluation work performed during the annual budget process. However, I am advised this year that Treasury Board intends to develop an evaluation process which will reflect the capability of departments and central agencies, taking into account staff constraints.

3.12 This intended action is a step in the right direction and in line with our recommendations on this subject made in previous reports. The challenge for government will be to develop a meaningful process that is practical, cost-effective, and acceptable to those who have to carry it out.

3.13 I support the action intended by Treasury Board and will provide assistance where possible. A report on progress made will be provided in next year's report.

REPORTS ON COMPREHENSIVE AND SPECIAL AUDITS

4. INTRODUCTION TO COMPREHENSIVE AND SPECIAL AUDITS

4.1 Section 13(2) of the Audit Act establishes my mandate for comprehensive and special audits of departments and agencies of the Crown.

4.2 Comprehensive auditing is a broadly based auditing approach aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems and controls employed by management in fulfilling its responsibilities. The purpose of the audits is to examine each entity, report on observed deficiencies, and make recommendations where appropriate.

4.3 In contrast to financial auditing, no generally accepted standards have as yet been developed for comprehensive auditing. Instead, the auditor has to rely mostly on his professional experience and judgement, supplemented where necessary by expert assistance in areas outside the auditors competence. The audits to date primarily have covered accountability, management processes and controls.

4.4 Section 16 of the Audit Act does not specify particular reporting requirements, but subsection (d) requires me to call attention to any matters I consider necessary to be brought to the attention of the Legislative Assembly. Accordingly, I submit the results of my audits completed this year in the sections following this introduction.

5. INVENTORY MANAGEMENT

INTRODUCTION

5.1 Inventories are a significant asset of government which must be carefully controlled. The value of Public Accounts inventories on hand at March 31, 1987 was $3.5 million but the total dollar amount which flowed through the inventory accounts in fiscal 1986-87 was in excess of $7 million.

5.2 The inventories held by Government are diverse and include such items as drugs, school books, fuel, audio-visual equipment, garage parts, supplies, sand and salt.

5.3 There are basic controls that must be in place for all inventories. The procedures and safeguards required depend on the inventory and how susceptible it is to loss or theft.

SCOPE

5.4 We performed a government-wide review of inventories with specific emphasis on those with greater dollar-value and attractiveness. We focused primarily on inventory required for the provision of services and delivery of programs.

5.5 The controls we looked at dealt with inventory control, safeguarding, completeness, responsibility, recordkeeping systems, inventory levels, obsolete inventory and cut-off procedures.

INVENTORY CONTROL

5.6 We observed serious deficiencies in the management and control of most inventories. Even though our office has remarked on a number of these inventories as part of other audits in the past, improvement has been minimal or non-existent. In fact, for some the controls have deteriorated. The dollar value of these inventories alone renders this situation unacceptable.

5.7 The reason for the lack of proper management and control is an overall indifference to inventory controls in general. The main concern seems to be obtaining the funds and authority to purchase the items. However, once they are received, proper accounting and inventory controls are of secondary or no concern at all.

5.8 This attitude needs to change and it will only happen if management takes steps to communicate to those responsible for inventories their specific responsibilities and hold them accountable for performing them.

5.9 Because there is no Treasury Board policy on inventory management requiring senior management's specific attention to this matter, it appears the necessary motivation does not exist to improve this situation.

5.10 Treasury Board should establish a policy setting minimum standards for the proper management and control of inventories.

5.11 The remainder of this section provides observations and recommendations from our audit which should prove helpful in establishing an appropriate policy.

SAFEGUARDING OF INVENTORIES

5.12 The safeguarding of inventories is important to ensure they are not lost, stolen or damaged. We found a number of inventories which were not properly safeguarded because access was not limited at all times to authorized persons. For example, the parts rooms in the government garages in Charlottetown and Summerside as well as the Pharmacy had the capability to restrict access but the controls were violated when doors were left unlocked.

5.13 These controls must be consistently enforced to prevent the unauthorized removal of stock.

5.14 The procedures used to safeguard inventories should be evaluated and, where necessary, improved controls implemented.

COMPLETENESS OF INVENTORIES

5.15 All goods on hand should be recorded in the inventory records. When items are not recorded control is weakened and it becomes difficult to assign responsibility for them.

5.16 Our audit revealed that: items of audio visual equipment are purchased and not recorded; some finished highway signs are not included in inventory totals; the government garage does not include certain small but attractive items such as filters and headlights in the inventory; and parks supplies do not include inventories held for the regional offices.

5.17 These gaps in the recording of inventory make it impossible to determine whether the items are being adequately controlled and the inventory is being used for the purpose intended.

5.18 The inventory records should include all goods on hand.

RESPONSIBILITY FOR INVENTORIES

5.19 Responsibility for inventories is not clearly assigned to ensure that individuals are held accountable for the results of their work such as; inventory shortages, year-end reconciliation differences, and inventory turnover.

5.20 We noted a number of unreconciled inventory differences between the general ledger and the physical counts at year-end for which no one was clearly accountable.

5.21 Differences where the general ledger exceeded the physical count were; government garage parts - Charlottetown $250,000, government garage parts - Summerside $48,000, and bridge materials $55,000. Differences where the physical count exceeded the general ledger were gas and tires $9,600 and parks supplies $30,000.

5.22 These differences represent the net error which has accumulated in the inventory records over a year and we did not receive an adequate explanation for them.

5.23 Responsibility for each inventory should be clearly assigned and accountability for results should be monitored by senior management.

RECORDKEEPING SYSTEMS

5.24 A good recordkeeping system should provide accurate balances and a transaction history for each item. When each item can be accounted for, the likelihood of fraud or error is reduced. The system can also improve control by providing information on usage to establish ordering policies and identify slow moving items.

5.25 As noted in the previous section, there are a number of large differences between the general ledger and the physical count at year-end. There was also a substantial difference noted in the pharmacy inventory between their perpetual records and physical count of approximately $98,000.

5.26 We also noted problems in the recordkeeping for school supply, bridge materials and culverts, signs, audio visual equipment, crown properties and fuel inventories. The problems were either caused by incomplete records or systems which contained a large number of errors.

5.27 In general we found the recordkeeping systems used to control inventories to be unreliable and inaccurate. In many of the inventories computerization of the records was being considered, however, unless employees are more careful in accurately recording all transactions and more control is exercised by management the problems are likely to remain.

5.28 Treasury Board should provide guidelines for inventory recordkeeping systems. The guidelines should include procedures to ensure all inventory items are accurately recorded, checked to physical counts and any differences followed up to senior management's satisfaction.

INVENTORY LEVELS

5.29 The control of inventory levels is an important part of the inventory management process. The cost of maintaining higher levels of inventory than necessary is reflected in the financing costs to the Province.

5.30 The costs of carrying inventories is in excess of $350,000 per year which does not include the storage area necessary to protect stock, the staff needed to control the items being held, or loss of value due to obsolete stock.

5.31 We found high levels of inventory in school supply, bridge materials, culverts, government garage parts, and parks supplies. The cause of the high levels of inventory varied depending on the nature of the inventory, however, there is little initiative to reduce them because the departments are not responsible for the costs of financing the inventory. That is a cost of government in general.

5.32 Inventory levels should be controlled to improve turnover and minimize the carrying costs of inventories.

OBSOLETE INVENTORY

5.33 Carrying obsolete inventory is costly to the Province because the inventory is usually declining in value and results in unnecessary storage costs.

5.34 We found obsolete items in parks supplies, government garage parts and bridge materials inventories. These items are difficult to control and adversely affect turnover ratios.

5.35 Obsolete parts resulted from equipment being discontinued as well as changes in program delivery. Some obsolete parts can be expected as an unavoidable cost of doing business but we could not determine whether the Province's costs were being minimized.

5.36 There were no policies dealing with obsolete inventory or the action required to dispose of it.

5.37 The Treasury Board policy on inventories should include guidelines for identifying and disposing of obsolete inventory.

CUT-OFF PROCEDURES

5.38 Proper cut-off is required in order to accurately reflect expenditures for a fiscal period and ensure balance sheet figures are correctly stated.

5.39 We found that the sign shop and parks supplies included inventory in their March 3l balance which was not received until after that date, while the pharmacy had inventory on hand at year end which was not included in the year-end balance.

5.40 Cut-off procedures should be implemented to ensure only inventory items on hand as of March 31 are included in the inventory records for that year end.

INVENTORY AUDITS

5.41 As part of our overall review of inventories a number of individual inventories were audited. Summaries of our main findings from these audits are included in the following sections.

5.42 SCHOOL SUPPLY

- New book inventory increased in value from $333,000 to $650,000 in the last five years.
- The perpetual inventory system does not readily provide the necessary detail to reconstruct transactions for purchases, disbursements or books returned from the schools.
- School supply employees have reduced their periodic visits to the schools which were useful in the past to ensure excess books were not being carried and to verify the accuracy of the computer records.

5.43 PHARMACY

- Physical access to the pharmacy is not always restricted.
- Access to computer terminals does not require passwords.
- The Director of Pharmacy is not authorizing all stock adjustments.
- The general ledger account is not used to control purchases and disbursements.
- The year-end inventory value in the general ledger has not always been adjusted to agree to the physical count.
- The perpetual records do not agree with the physical count. At March 31, 1987 the perpetual records indicated a balance of $255,000 while the actual count balance was $157,000.
- The pharmacy does not record all stock on hand at year end in the general ledger.

5.44 PARKS SUPPLIES

- Year end reconciliation differences arise because of the method of inventory valuation.
- Journal entries to record disbursements are only made twice per year so the general ledger is out of balance most of the time.
- Inventory cut-off errors have occurred where items received after year end are included in the closing balance.
- Perpetual inventory records are not posted on a timely basis.
- Inventory turnover is poor. In 1985-86 there was $74,000 in inventory at the beginning of the year and only $49,000 was issued during the year.
- Unexplained adjustments have been recorded in recent years including a $30,000 difference at March 31, 1987.

5.45 SAND AND SALT

- Reconciliation procedures to agree invoices for shipments to receipts are not documented.
- There are limited procedures in place to verify actual receipts and disbursements.
- Purchases of sand and salt exceeded $1.5 million in 1985-86.

5.46 SIGN SHOP

- Sign Shop inventory counts did not include finished sign inventory which cost $125,000.
- Access to finished sign inventory was not limited to Sign Shop employees.
- Large adjustments with incomplete explanations were made to the general ledger account in 1986 totalling $83,000.
- Inventory pricing procedures cause differences between the general ledger and physical count amounts.
- Inventory on hand is sometimes held for up to 10 years.

5.47 GOVERNMENT GARAGE - PARTS

- The controls over access to inventory are not always strictly enforced.
- There was a lack of procedures to deal with obsolete inventory.
- Some tires included in inventory resulted from purchasing tires which were incompatible with others on the vehicle.
- Inventory turnover continues to be poor, inventory levels have doubled from $600,000 to $1,200,000 since 1981.
- Repair orders which are input documents for the reduction of parts on the perpetual records are not adequately controlled.
- Year-end inventory adjustments are made with inadequate explanations. At March 31, 1987 the unreconciled adjustment was $250,000 for Charlottetown Garage and $48,000 for Summerside.

- Inventory adjustments are not clearly indicated or approved on the perpetual records.
- Access to the battery storeroom is not limited to storeroom staff.
- A number of frequently used attractive items are not included on the perpetual records.
- A computer system is currently being developed to record the perpetual inventory of parts for both Summerside and Charlottetown.

5.48 GOVERNMENT GARAGE - FUEL

- Inadequate procedures exist for recording fuel disbursements at the Charlottetown Garage. For example, binoculars were used to read meters from inside the garage when issuing fuel from outside tanks. At the time of our audit daily reconciliations of actual usage were not being performed.
- There were a number of stock adjustments and errors on the perpetual fuel records.
- There is almost no control over fuel delivered by the fuel trucks to the operators stationed throughout the Province.

5.49 BRIDGE MATERIALS

- Accountability for inventory is not sufficiently defined.
- The person responsible for the culvert inventory receives no record of where the culverts go after the district supervisors receive them.
- Bridge material turnover has improved since our last audit, however, we noted there was $245,000 in inventory which turned over less than once in the last two years.
- Culvert turnover has also improved significantly, but some types of culverts still turn over slowly.
- Access to the bridge materials storeroom is not limited to storeroom employees.
- Disbursements are not recorded on prenumbered forms.
- Culverts are currently being purchased before they are needed.

5.50 AUDIO VISUAL EQUIPMENT

- The inventory records for Audio Visual equipment were incomplete. Twenty-five of the seventy-five purchases sampled were not included on the records. This occurred because of a lack of coordination between the Audio Visual Services Centre and the Purchasing Division.
- Permanent loan cards for equipment received by the departments are not being signed making it difficult to determine who in a department is responsible for the equipment.
- Some items which were included on the inventory records could not be found by the department staff.

5.51 CROWN PROPERTIES

- Crown holdings of land and buildings have an assessed value of approximately $66 million.
- The inventory records do not readily provide summary information which would be useful for managing the Crown land inventory.
- The inventory does not include all properties held by the departments or its agencies.
- The files used for inventory documentation were difficult to use because they were not organized in any particular order.

5.52 The detailed findings and recommendations from this audit were provided to each department and Treasury Board.

6. P.E.I. LENDING AUTHORITY

INTRODUCTION

6.1 The Lending Authority was established by statute in 1969 as a provincial Crown Corporation. The mandate of the Authority is to provide loans and credit to persons engaged in farming, fishing, tourism and small business. To fulfil its mandate the Authority has formulated objectives to encourage, stimulate and expand the economy of Prince Edward Island through direct loans for productive use in the farming, fishing, tourist and small business sectors.

6.2 The Lending Authority, with almost $51 million in loans receivable, is one of the largest lenders in the Province and thus an important force in the availability of credit to the different sectors of the Island economy.

6.3 The original purpose of the Lending Authority was to give credit on terms and conditions not normally available from conventional sources. It appears that the Authority has gone beyond its original purpose and provides credit even if the applicant can obtain it elsewhere.

6.4 Lending and recovery are the two main activities carried out by the Authority. The implementation of these activities requires proper planning, control and evaluation in order to achieve maximum results.

AUDIT SCOPE

6.5 A comprehensive audit was performed which focused primarily on the lending and recovery activities of the Authority. Management controls were reviewed taking into consideration the Authority's act, regulations, management policies and accountability relationships that have been established.

PLANNING

6.6 The Authority's mandate and objectives are clear and its policies provide general direction. However, a plan outlining specific results to be achieved over the short and long term does not exist.

6.7 As part of the planning process, a needs analysis is not performed to assess the state of the economy as a whole and the advances or losses in the four specific sectors to which it loans money. In addition, gaps in the credit system which exist in these sectors are not determined as a basis for focusing the resources of the Authority.

6.8 We recognize the Authority does not have the resources to set up an elaborate planning function. However, more attention needs to be directed to planning. To assist management we have provided planning criteria from which more formal planning practices can be developed.

6.9 The Authority should prepare short and long term plans based on an analysis of its operating environment and its organizational strengths and constraints.

6.10 The plans should contain expected results that are specific, quantified where appropriate and compared to actual results on a regular basis.

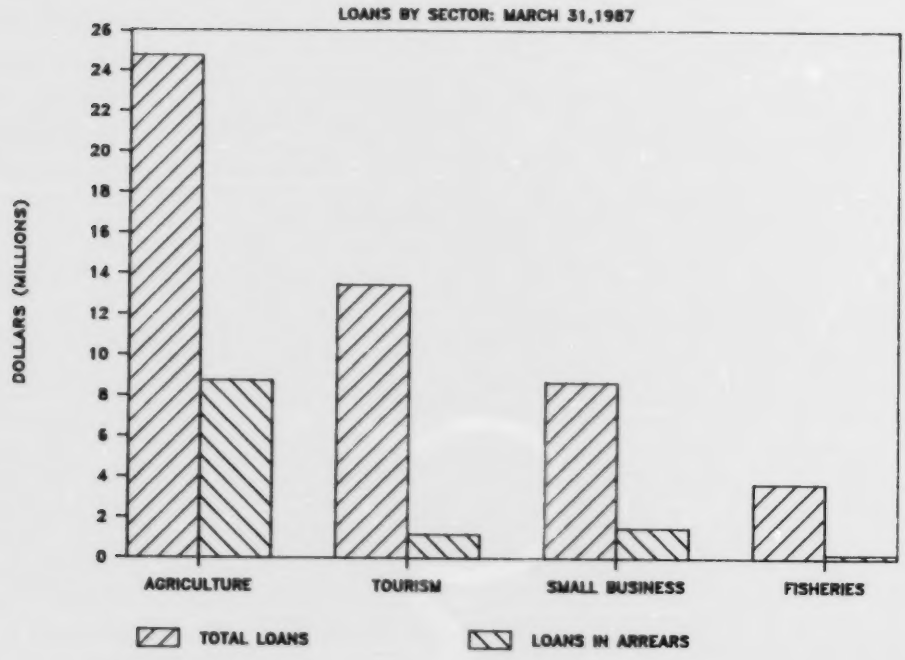
6.11 Plans should be documented, reviewed regularly and revised when appropriate.

LENDING ACTIVITIES

6.12 In the past year, 284 loans amounting to $21.9 million were approved and 96 applications totalling $10 million were declined. The loans by sector at March 31, 1987 are shown in **Exhibit 6.1**.

EXHIBIT 6.1

Prince Edward Island Lending Authority



6.13 The Authority issues loans to a large number of high risk clients, but one of its main criteria, is the client must have the ability to repay the loan. In other words, the business or project must be viable and a credit investigation and evaluation report is required to demonstrate this. It is the policy of the Authority to deal with all clients in a business-like manner.

6.14 We examined a sample of loan files dealing with 22 points or criteria to determine if the applicants qualified and whether the act, regulations and policies were followed.

6.15 Following are our observations from a sample of files:

- A $900,000 loan was approved by the Board under the Tourism sector for an organization which is located in Charlottetown. This was in contravention of the Board's policy which prohibits Tourism sector loans for operations within the Summerside and Greater Charlottetown areas.
- One file was missing a client evaluation report and most evaluation reports in the files were not dated.
- Two cases were noted where the General Manager's decision was contrary to the recommendations of staff. In both cases, no explanation was documented in the file as to why the recommendations of staff were not followed.
- In one instance a loan was provided for an item that exceeded the specifications in the policy manual.

6.16 Board decisions that deviate from policy should be fully explained and documented.

6.17 The General Manager's decision to approve or decline loans which are contrary to staff recommendations should be documented and explained in loan files.

LOAN RECOVERY

6.18 As at March 31, 1987 the total loans outstanding were $51 million representing 1517 loans of which 214 were in arrears. The total loan value of the arrears amounted to $11.7 million and the actual payments in arrears equalled $5.3 million. The allowance for doubtful accounts was $3.3 million.

6.19 Based on our sample of 20 delinquent accounts out of the 214 which are in arrears, we found that the Authority's loan recovery policy was generally adhered to. However, it is a general policy document which provides loan officers with a great deal of flexibility as to appropriate action to be taken on individual delinquent accounts.

6.20 There are several improvements required to the loan policy to make collection efforts more successful: a periodic review of the value of security by staff would enable management to monitor and protect against losses due to security erosion and asset depreciation; more specific direction to staff as to the timing of the steps to be taken could improve the collection process; and the role of the Board in making decisions concerning foreclosures should be stated in the policy.

6.21 In terms of actual collection efforts our sample revealed that phone calls and visits by loan officers were the main thrusts. The use of registered letters, where appropriate, requesting payment and outlining possible consequences is not standard practice. Where the situation demands it, such formal action under the signature of the General Manager or Chairman of the Board would lend support and credibility to staff's efforts on overdue accounts.

6.22 The Board should revise its loan recovery policy to improve accountability at all levels and provide clearer direction on actions to be taken to ensure maximum recovery of loans.

EVALUATION

6.23 A regular documented in-depth review of the Authority's activities to assess the extent of achievement of its objectives is not performed.

6.24 The Authority has established a number of key criteria that need to be met to achieve the objectives of its lending and recovery practices. However, the Authority does not review the various activities to assess what has been achieved. Again we recognize that resources do not exist to perform full-scale program evaluations, but more effort needs to be directed to this activity.

6.25 The Authority should develop and implement periodic evaluations of its activities.

ACCOUNTABILITY

6.26 There has been strong pressure from individuals for the Authority to be more flexible in the lending and collecting activities and also from others to maintain its policy to operate on a strictly business-like basis. The Board's response has been to maintain their philosophy not to write down loans. Our audit revealed the Board and General Manager have acted within the authority conferred by the Act and Regulations.

6.27 The Board of Directors is clearly the decision making body on matters affecting the lending and collection policies of the Authority. Certain government departments and agencies have input through individual appointees to the Board but as long as the Board is acting within its mandate, government cannot interfere in its routine operation. If government wishes the Authority to undertake a specific policy change, this can be accomplished by changes to the Act or Regulations. In our opinion, this is how the relationship between government and the Authority was intended and should remain.

PERFORMANCE APPRAISALS

6.28 Performance appraisals to evaluate and improve the work of employees are not performed. The only type of appraisal performed is the completion of the employee rating form when an employee is eligible for a merit step increase. Once an employee reaches the top step of the salary range no further appraisals are performed. Special appraisals may be completed when a staff member's performance has been deemed inadequate.

6.29 Regular employee appraisals are important in order that both management and staff know what is expected, what has actually been achieved and what can be done to improve performance.

6.30 The Authority should obtain guidance from the Civil Service Commission and implement a staff performance appraisal system.

7. P.E.I. LIQUOR CONTROL COMMISSION

INTRODUCTION

7.1 The Liquor Control Commission was established to administer the Liquor Control Act.

7.2 The objectives of the Commission are: the provision of the most efficient system of acquisition and distribution of alcoholic beverages to the public, while maintaining a high level of customer service; the maximization of revenue to the Minister of Finance while keeping in mind government policy; the issuance of licenses for the operation of dining rooms, lounges, clubs, and military canteens; the maintenance of security over Commission assets; and the maintenance of surveillance of licensees to ensure they adhere to the Liquor Control Act and Regulations.

7.3 The Commission has annual sales in excess of $45 million and provides over $20 million in revenue to provincial coffers in the form of health taxes, sales taxes and profits.

AUDIT SCOPE

7.4 A comprehensive audit was performed on the operations of the Commission. It is not desirable or practical to attempt a complete review of an entity so our audit focused mainly on those activities and functions critical to the achievement of the Commission's objectives.

7.5 Our audit involved an assessment of financial and management controls and included examination of documents, interviews with Commission staff, and a review of accountability relationships.

7.6 The audit projects included performance criteria which the management of the Commission agreed were reasonable standards against which their activities could be measured.

PLANNING

7.7 In response to a request from Policy Board the Commission prepared a planning document on the strategic issues facing the Commission entitled, "A Submission on Policy Development". Although there were a number of planning initiatives identified, supporting documentation was lacking.

7.8 The planning process did not provide support documentation to demonstrate that the following key factors were adequately considered: the Commission's operating environment; expected future trends; strengths and constraints in meeting its objectives; a comparison of costs and benefits of proposed alternatives; and linkages between strategic issues and budgets.

7.9 Our overall assessment is that the planning process used by the Commission is too informal. With sales over $45 million, increasing investment in facilities and staff costs in excess of $3 million, a more formalized process is necessary.

7.10 We recognize management's concern that insufficient resources are available to spend a lot of time on planning. On the other hand, the planning function is fundamental to the efficient and effective operation of the Commission and requires more attention.

7.11 To assist management in developing a more formalized planning approach, we have provided them with criteria that can be adapted to their circumstances.

7.12 The Commission should establish a formal planning process which results in documented plans.

7.13 Operational plans should be prepared which contain specific targets for achievement, and actual results should be monitored and compared against the targets identified.

ORGANIZATION STRUCTURE

7.14 The Commission has been in existence for over 35 years. The organization structure and accountability relationships at the management and Commission level have remained essentially the same during this period.

7.15 Currently, the Commission is the second largest Crown Agency on P.E.I. It is managed and directed by a three member Commission one of whom is the Chairman who also acts as Chief Executive Officer. Other Crown Agencies usually have a Board consisting of at least six people, a Chairman of the Board and a separate Chief Executive Officer.

7.16 Executive Council should review the present Commission structure and consider whether changes are required to bring it more in line with other Crown Agencies.

STAFF LEVELS

7.17 Salary and employee benefits cost the Commission in excess of $3 million per year and represent approximately 70 percent of the operating budget. The largest number of employees are in the stores where staff levels range from 88 in the winter months to 134 during the summer.

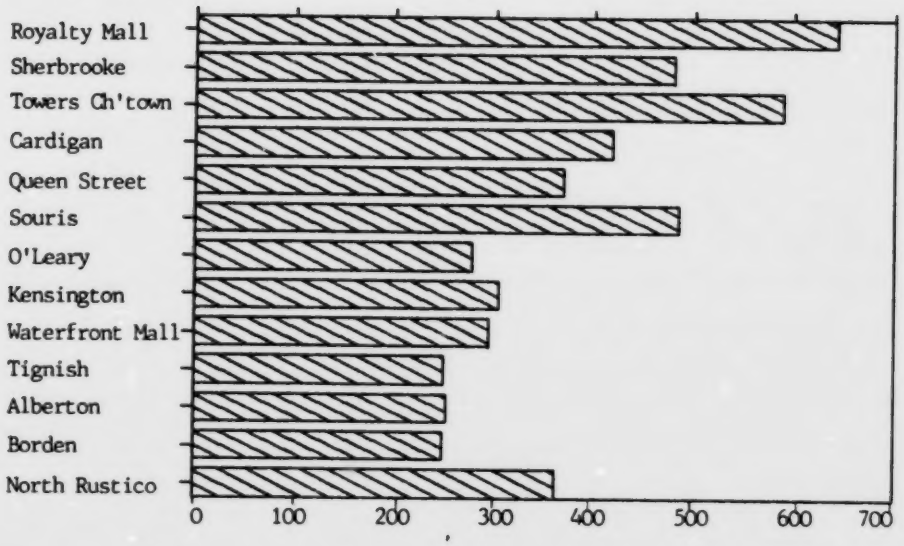
7.18 Management indicated that the two most important variables in staffing a store were hours of operation and volume of sales. The Commission does not have documented standards to indicate the optimum number of staff required to operate a store.

7.19 We compared the **dollar sales per staff person**at each of the stores with the exception of the licensee store and found that they ranged from a low of $249,155 at Borden to a high of $643,445 at the Royalty Mall. The results of this comparison are shown in the following exhibit.

EXHIBIT 7.1

Sales Per Staff Person

March 31, 1987



7.20 We used Royalty Mall as a benchmark against which to compare the staff levels in other stores. Based on Royalty Mall's sales per staff member ratio and the requirement that at least three people are necessary to staff a store, the Commission's stores are overstaffed. If all stores were staffed using the same sales per staff ratio as Royalty Mall, salary costs would drop by as much as $600,000.

7.21 Management does not agree that this extent of savings can be achieved. We acknowledge that there are factors such as economies of scale and existing store hours that would prevent the Commission from achieving this total reduction.

7.22 However, the Commission could not provide us with staffing standards and there was no documented analysis of staffing requirements at the time of our audit. We are convinced that substantial savings can be achieved if realistic standards are developed and applied.

7.23 The Commission should develop appropriate staffing standards and adjust the current staff levels accordingly.

INVENTORY CONTROL

7.24 The Commission's inventory consists of beer, spirits and wine costing approximately $2 million. As part of our audit we assessed the controls in place to manage the Commission's inventory.

7.25 To minimize the carrying costs of inventory frequent turnover is required. The current inventory turnover is 9 times per year. However, turnover for beer is 24 times while spirits and wine are much lower with a turnover of 5.5 and 3 times respectively.

7.26 Domestic spirits and wine represent 91 per cent of all spirits and wine sold with the remainder coming primarily from America and Europe. Management indicated to us that the maximum time for ordering and delivery of any domestic product should not exceed 24 days. This translates into an attainable turnover ratio of 15 times per year. Actual inventory turnover for domestic spirits and wine is much lower at six times per year, or every 58 days.

7.27 We also looked at the inventory levels carried by each of the 14 stores on a monthly basis. We discovered that three of the 14 stores had their highest inventory prior to low sales periods. We also noted that seven of fourteen stores had average monthly inventory that amounted to over four weeks' sales even though orders are received by the stores on a weekly or biweekly basis. These store inventories are unnecessarily high and are contributing to the low turnover rate.

7.28 If inventory turnover is increased, the dollars that are invested in inventory can be used elsewhere, in this case by reducing the borrowing requirements of the Province. If the inventory turnover ratio for domestic spirits and wine could be increased to 15 from the current level of six times approximately $98,000 in inventory carrying costs could be saved. However, we recognize inventory turnover is better than it was a number of years ago.

7.29 The Commission's product listing includes a variety of foreign spirits and wine which are ordered twice a year. We could not determine from the information provided to us whether this frequency of orders is the most economical. Carrying charges on foreign products are estimated at $20,000 per year.

7.30 Management of the Commission's inventories should be improved and higher turnover rates achieved when possible.

DRAFT BEER

7.31 In February of 1986 the Commission began selling locally produced draft beer. Management advised us that there was no increased beer consumption and any draft beer sales replaced existing bottled beer sales. This resulted in reduced profits for the Commission because draft beer has a lower gross margin than an equivalent amount of bottled beer.

7.32 We estimate that lost profits, health tax, and sales tax to the Province for 1986-87 were $280,000. We were advised that considerations such as a higher level of service to the customer and job creation were used in making the decision to have draft beer produced.

MARKETING

7.33 The Commission's marketing objective is to encourage consumers to purchase higher priced products without increasing consumption. They use techniques such as product of the month displays and shelf management to accomplish this objective.

7.34 We found that the process for developing new marketing initiatives did not include certain information which we considered necessary such as: a consumer profile; analysis of alternatives; assignment of responsibility; and a method for evaluation.

7.35 The Commission should develop a marketing plan to provide direction to its promotional activities.

LICENSING AND INSPECTION

7.36 The Licensing and Inspection Section is responsible for ensuring that only premises which meet the requirements of the Liquor Control Act and Regulations are licensed to sell alcoholic beverages. Their activities include the granting of licenses as well as the regular inspection of Licensees.

7.37 For 1987 the number of Licensees requiring inspection increased from 176 in the winter to 220 in the summer. Even though the number of Licensees requiring inspection increased, summer vacations were taken without replacement staff being hired. The average number of inspections dropped during the summer to 86 per week from 101 and we were advised that Licensees were still adequately inspected. If this is the case, there is over inspection during the winter.

7.38 The inspectors perform over 5,000 inspections per year resulting in about six disciplinary hearings of the Commission. We were informed that more hearings would be required if the inspectors were allowed to detain persons suspected of being under the legal drinking age so that charges could be laid. The Chief Inspector could not provide us with the total number of suspected minors who were not charged.

7.39 The Commission should ensure that inspection activities are adequate, but not excessive throughout the year.

7.40 Statistics should be collected on all suspected and confirmed infractions of the Liquor Control Act and Regulations to determine if current inspection procedures are effective in controlling Licensees.

8. CAPITAL PROJECTS MANAGEMENT SYSTEM

INTRODUCTION

8.1 The Capital Projects Management System (CPMS) was established by Treasury Board in 1981 to control the planning, priorizing, and managing of capital projects excluding highway construction. Capital projects are a significant budget item.

8.2 For the five years ending March 31, 1987 expenditures of $26 million were incurred for capital projects. For many projects, the original cost is only the tip of the iceberg. The strain debt charges and operating costs associated with these projects place on future budgets is substantial. For these reasons and to ensure informed decisions are made, an effective capital projects management system is required.

APPROVAL PROCESS

8.3 One of the main purposes for establishing the CPMS was to provide for specific approvals at key stages of a project. The existing policy has been substantially complied with.

8.4 However, the policy has not been updated since 1981 and significant decisions have been made affecting capital projects which have not been incorporated. For example, in 1983 Executive Council approved bid and contract security requirements for government construction projects. These requirements are now basic to the tendering process but are not included in the policy.

8.5 The bid and contract security requirements established by Executive Council should be included in the Capital Projects Management System.

8.6 The Capital Projects Management System should be reviewed and updated when decisions affecting capital projects are made.

CAPITAL PROJECTS MASTER PLAN

8.7 A key document necessary for the CPMS to achieve its objective is the multi-year Capital Projects Master Plan. This plan should set out all capital projects being carried out by government including those at the planning and design stages. The Department of Transportation and Public Works is responsible for maintaining the Master Plan.

8.8 We found that the Capital Projects Master Plan was incomplete and served little or no use. It was not regularly updated and contained very little cost information. The plan included several private sector projects over which the Province had no control but did not include several government projects that were still in the construction phase and others such as those of the Housing Corporation and the Liquor Control Commission.

8.9 In addition, essential cost information, projected cash flow requirements and types of financing to be obtained were lacking. In one instance, the estimated cost of the project was incorrectly recorded by approximately $30 million.

8.10 Treasury Board should take immediate steps to ensure the deficiencies in the existing plan are corrected.

PROJECT MANAGEMENT

8.11 Project management is the responsibility of the Department of Transportation and Public Works. A project manager is assigned to ensure all contracts are properly supervised, all phases of the project are coordinated and a complete file is maintained for each project. A review of the files indicated that they are organized and contain most of the required documentation.

8.12 One area of concern was the minutes resulting from meetings between the project manager, the contractors and provincial representatives. The minutes did not include information on the disposition of outstanding items from previous meetings. In addition, minutes of job meetings were not signed as being the official and approved minutes.

8.13 All minutes of meetings should be formally approved, signed and record how items brought forth from previous meetings have been dealt with.

PAYMENT CONTROL

8.14 The CPMS policy document does not provide any guidance for payment control procedures. Payment control measures need to be added to the policy as well as a reference to the payment requirements of the Mechanic's Lien Act. Payment control measures include proper inspections, professional certifications and measurement of work done for comparison to value claimed. Our audit revealed that these control measures are being carried out by the Department of Transportation and Public Works.

8.15 The Capital Projects Management System should include appropriate payment control procedures.

PROJECT EVALUATION

8.16 The CPMS policy document requires that all projects over $250,000 be evaluated one year after completion. This is to be done by the Department of Transportation and Public Works with input from the client department as well as Treasury Board staff. This very important phase of capital construction projects is not being performed.

8.17 These evaluations were to take into consideration a number of factors and result in recommendations that could improve the planning and control of future projects.

8.18 Treasury Board should ensure that the Project Evaluation provisions of the CPMS are complied with.

8.19 Treasury Board has responded to the concerns raised in our report and is taking steps to deal with them.

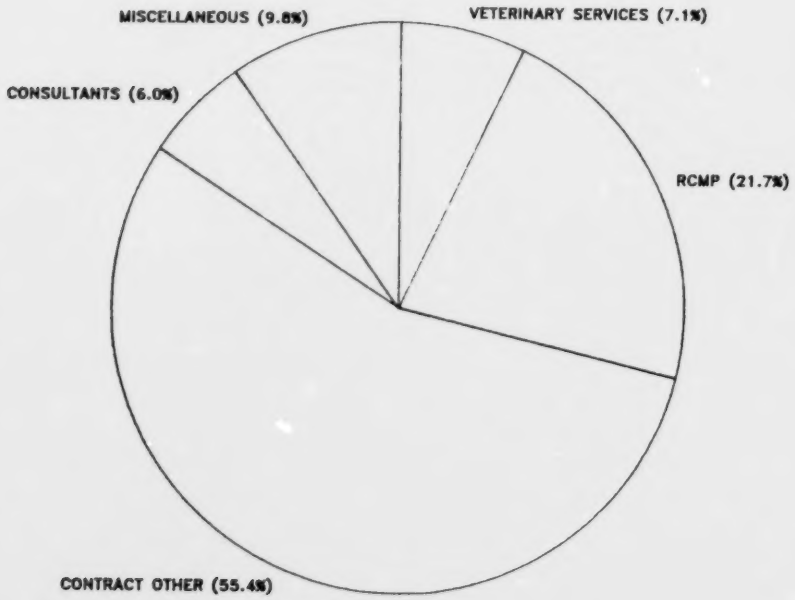
9. PROFESSIONAL SERVICES

INTRODUCTION

9.1 The Province made payments of approximately $18 million in 1986-87 which were charged to professional services.

9.2 Professional services expenditures are classified into twelve different categories. The term professional services may be somewhat misleading because a large portion of the expenditures made pertain to items not usually considered under this definition. For example, expenditures include contracted snow and ice removal costs and the RCMP contract, which together total over $8 million. **Exhibit 9.1** provides a breakdown of the charges made to professional services.

EXHIBIT 9.1



Note 1: The Contract Other category contains a wide variety of charges that are not recorded separately. These include agricultural marketing, potato disease control, solid waste management, expo '86, tourism marketing, laundry, young offenders, election expense, and snow removal.

Note 2: Miscellaneous comprises the eight other categories which are: lab and xray services, legal, accounting, computer, dental, doctors and nurses fees, surveying, and jurors and witness fees.

AUDIT SCOPE

9.3 Our audit consisted of an assessment of the adequacy of internal control over payments and a review of the policies and procedures in place for administration and control.

9.4 The following performance criteria were developed to assess the adequacy of internal controls governing the administration of professional services contracts:

- Authority for executing contracts should be clearly defined.
- The format and content of contracts should meet the legal requirements of government.
- Responsibility for controlling contracts in the departments should be clearly assigned.
- Payments for contract work should only be made if the contract requirements have been met.
- Payments on contracts should be properly recorded.
- All other requirements of Treasury Board and the Department of Finance should be complied with.

AUTHORITY FOR ENTERING CONTRACTS

9.5 Treasury Board policy requires professional services contracts over $5,000 to be approved by Treasury Board. Our audit revealed that the policy is not clear with regard to cost-shared consultant studies where the departmental share is less than $5,000 but the total contract cost is greater than this amount.

9.6 It was also observed that there are no controls to ensure Treasury Board policy is followed.

9.7 Treasury Board should clarify its approval policy regarding professional services contracts.

9.8 Treasury Board should establish the necessary controls to ensure that all contracts falling within its policy directive receive the necessary prior authorization.

FORMAT AND CONTENT OF CONTRACTS

9.9 There is no policy requiring departments to sign formal written contracts with third parties rendering professional services and no standard contract guidelines exist. Formal written contracts are used in some but not all instances.

9.10 Basic requirements of any contract should include: starting and completion dates; details of work to be done; basis and timing of payments; expected outputs; and other significant terms of reference.

9.11 Treasury Board should establish a policy requiring all contracts to be in written form, standardized as much as possible and signed by all parties before work is commenced.

CONTROL OF CONTRACTS

9.12 Our audit sample revealed that generally, the responsibilities for controlling and monitoring contract performance were appropriately assigned at the department level. All payments examined were approved by someone who was familiar with the contract, was in a position to demonstrate that all conditions had been met, and had authority to approve payment.

9.13 While we did not find evidence of any contracts where control was not assigned it is recommended that Treasury Board establish in its policy, guidelines for departments to follow in monitoring contract performance.

RECORDING OF CONTRACT PAYMENTS

9.14 Payments are recorded in twelve separate appropriation account codes which are designed to separate the different types of services. Although separate categories exist to record minor expenditures such as surveying and appraisal fees and jurors' fees, the Contract Services - Other category lumps together $10 million of various expenditures including everything from election costs to snow and ice removal contracts. For budget planning and control, an adequate definition does not exist to classify each type of major expenditure. Some improvements have been made with the revised "Classification of Accounts" which will become effective April 1, 1988.

9.15 Treasury Board should more clearly define and segregate the types of professional services to provide better planning and budgetary control.

9.16 Treasury Board is currently developing a policy that will address the points raised in our report.

10. STAFF TRAINING

INTRODUCTION

10.1 The cost to the Province for Staff Training in 1986-87 was approximately $1.2 million. This represents the direct cost for training as well as the salary and travel costs of persons attending training courses.

10.2 Training programs enable employees to acquire the necessary skills and knowledge to perform their jobs satisfactorily. Such programs can improve productivity and job satisfaction and can help ensure the availability of competent replacements for incumbents of key positions. However, staff training is expensive due to course costs, travel, and salary costs while employees are being trained.

AUDIT SCOPE

10.3 Our government-wide audit included all training attended by government employees. This involved training sponsored by the Staff Development and Training Branch of the Civil Service Commission as well as training provided directly by the Departments.

TRAINING POLICY

10.4 The current government-wide policy for staff training is vague and inadequate. Section 27 of the Regulations to the Civil Service Act requires the Commission to determine staff development and training policy in the Civil Service. In our opinion the existing policy does not adequately cover training activities of departments in sufficient detail to provide direction.

10.5 The Staff Development and Training Branch does have a Policy Guidelines/Procedural Manual for staff training sponsored by the Branch. However, the manual has not been updated since 1980 when government eliminated the funding which the Commission had used for out-of-province training.

10.6 In 1986 the Commission conducted or funded courses which required approximately 3500 training days while the departments sponsored courses totalling over 4100 days. The courses sponsored by the Commission are more formally structured and are designed to serve a broader group.

10.7 The Civil Service Commission should have a policy to deal with all training. The policy should clearly identify the roles and responsibilities of the Staff Development and Training Branch, departments and agencies.

TRAINING NEEDS

10.8 The identification and analysis of training needs is important to ensure that employees have the skills to perform their jobs adequately. This can best be performed by an employee's supervisor during the performance appraisal process.

10.9 We found that many training needs were being identified on an ad hoc basis, with very little analysis or priorization. The responsibility for identifying individual training needs is often left up to the employee rather than resulting from a systematic needs identification process. Only two departments indicated that training needs were identified as a result of employee performance appraisals.

10.10 Departmental management should identify training needs on an annual basis and the Staff Development and Training Branch should coordinate the process.

TRAINING PLANS

10.11 Training plans are necessary to ensure that identified training needs are priorized and scarce training dollars are expended efficiently. We found that documented training plans were rarely prepared and the decision to acquire training depended on whether funds were available at the time. This can lead to training dollars being wasted on low priority training while essential training needs may not be satisfied.

10.12 Training plans are required by the Staff Development and Training Branch for coordinating courses and combining common needs. These plans are essential if the most economical approach to meeting training requirements is to be used. For example, more courses could be presented locally by bringing the resource person to Prince Edward Island instead of sending employees out of province. This would have the advantage of making the training available to more people and at the same time reduce travel costs. Travel and lodging for employees attending courses cost the Province approximately $100,000 in 1986-87.

10.13 Departments should prepare training plans for their employees. These plans should be consolidated by the Staff Development and Training Branch and common needs should be identified and met in a cost effective manner.

EVALUATION

10.14 Evaluation is the systematic gathering of information to provide evidence as to how effectively staff training is meeting identified needs.

10.15 The current evaluation procedure for Branch sponsored courses is to have each participant complete a questionnaire at the conclusion of a training course. Branch management feel that these evaluations are not very useful in determining course effectiveness.

10.16 Formal course evaluations are not normally carried out for training activities sponsored by departments.

10.17 The Commission should ensure that all training activities are appropriately evaluated and the information used to modify training plans where required.

MANAGEMENT INFORMATION

10.18 The effective management of staff training requires timely and relevant information that enables management to determine the training needs, training costs, and training activities employees have participated in.

10.19 In general we found that the information available was inadequate. Although the Civil Service Commission gathers information concerning staff training where the Staff Development and Training Branch is involved, there is no central record of staff training sponsored by the departments. The information obtained from each department indicates total departmental training costs were $650,000 for 1986-87.

10.20 The lack of complete staff training management information can result in the inefficient and uneconomical acquisition of training resources. The Commission's Human Resource Information System has the capacity to record data pertaining to all training activities but it is not being totally utilized. Without a comprehensive data base of information, no one central agency knows the extent, cost or type of training employees are receiving.

10.21 The Human Resource Information System should include complete information on training taken by all government employees whether sponsored by the Commission or the Departments.

10.22 The Commission has responded to our concerns and intends to take steps to improve the management of training.

11. SOIL AND FEED TESTING LABORATORY

INTRODUCTION

11.1 The Soil and Feed Testing Laboratory was established in 1970 by the Department of Agriculture to provide information and advice to the Extension Branch's district offices as well as individual farmers.

11.2 Annual expenditures of the Laboratory average $250,000 with approximately $55,000 of this recovered from the Federal Government under the Economic Regional Development Agreement.

AUDIT SCOPE

11.3 We performed an audit of the program which focused on the following main areas: the process for a major equipment purchase; reports produced by the Laboratory; Federal-Provincial cost sharing agreements and evaluations; and service to the farmer.

OBJECTIVES

11.4 The objective of the Laboratory is to increase crop and livestock productivity by making recommendations which improve crop fertilization and livestock feeding.

11.5 The Laboratory has established four performance indicators which should serve to focus its activities and provide an effective measurement tool for evaluation. However, they are too broad to provide meaningful targets or allow for an assessment of effectiveness.

11.6 Specific performance targets should be established to provide a basis for measuring the laboratory's achievements.

PROGRAM PROMOTION

11.7 The Extension Branch strives to provide information to farmers and other users concerning farm production, management, and marketing. The Laboratory depends to a large extent on the Extension Branch and crop specialists to encourage submissions of soil and feed samples.

11.8 For the most part, the Extension Branch does not promote the Laboratory as a resource for increasing production yields of crops and livestock. Also, a review of the Department's newspaper, *The Cornerpost* did not reveal any feature articles on the Soil and Feed Testing Laboratory.

11.9 An increased awareness by farmers of lab services will assist in achieving objectives.

11.10 The Extension Branch and the Soil and Feed Testing Laboratory should coordinate promotion of the services provided by the Laboratory.

EQUIPMENT AND PERSONNEL ACQUISITION

11.11 At the time of our audit the Laboratory was in the final stage of procuring an ICP Spectometer costing $200,000 and two full-time staff positions. The reasons given for these additions were: to provide for a more efficient operation of the Lab; to carry out certain analysis previously not possible; to provide a higher level of service; and to provide for the anticipated expansion of sample submissions.

11.12 Anticipated increased sample volume is one of the primary reasons upon which the additional equipment and personnel have been approved. However, we found no documentation or other evidence to support management's claim that future increases in the number of samples were evident.

11.13 Sample projections based on the farming community's requirements should be determined. Equipment and staff requirements should be based on the volume of samples projected.

CUSTOMER SATISFACTION

11.14 In order to determine how well the farming community views the efforts of the Laboratory we questioned 46 farmers on the services provided by the Lab. The questions dealt with usage, timeliness, awareness and general comments.

11.15 It appears, based on the responses to our interviews that there is general satisfaction with the services provided by the Lab. However, many useful suggestions were provided and we recommend the following be considered to improve the program:

- **Steps be taken to ensure all farmers are aware of the Lab's services.**
- **Surveys be conducted on a periodic basis to determine if the Lab is meeting the needs of farmers.**
- **A review of the processing system be made to determine if any time inefficiencies exist and can be corrected.**
- **A sampling selection procedure be adopted and communicated to all farmers.**

12. DRUG COST ASSISTANCE PROGRAM

INTRODUCTION

12.1 In January 1987, the Province introduced a program to assist seniors in obtaining drugs at reasonable prices. We performed an audit of the Drug Cost Assistance Program for the three-month period ended March 31, 1987. Assistance provided during this period totalled $204,000.

12.2 The administration of the program was contracted to the private sector on the approval of Executive Council, after proposals were requested and assessed.

AUDIT SCOPE

12.3 An audit was performed on the payments system including the computerized claims processing system used by the Administrator contracted by the Province.

PAYMENT SYSTEM

12.4 As a result of our audit a management letter was issued to the Director of Pharmacy who has responsibility for overseeing the program for Government. The letter contained a number of observations and recommendations resulting from the audit.

12.5 Following is a summary of our findings:

- The age of applicants was not verified against a reliable source.
- Drug and price master files were not regularly scrutinized.
- Program weaknesses existed in the system software for edits of duplicate and stale-dated claims.
- Complete audit trails were not maintained.
- Blank cheque forms were not secured.
- Run-to-run balancing was not performed.
- Incorrect drug prices were used to calculate claim payments.
- Pharmacy audits were not performed.
- There was no method in place to determine whether customary and usual prices were charged by the pharmacies.

12.6 The Department of Health and and Social Services should ensure that all problem areas identified are corrected.

13. STUDENT AID

INTRODUCTION

13.1 Student Aid is comprised of the Canada Student Loans Program and the P.E.I. Student Bursary Program.

13.2 The Canada student loans are guaranteed by the Federal Government and must be repaid by the student upon graduation or termination of educational efforts.

13.3 The P.E.I. student bursaries are funded by the Provincial Government, are normally non repayable, and total approximately $2 million per annum.

13.4 Students' needs are determined in accordance with the *Canada Student Loans Administrative Criteria Manual* issued by the Federal Secretary of State. These represent the minimum criteria and the Department has the right to apply more stringent standards when required.

AUDIT SCOPE

13.5 We performed an audit of the program for the year ended March 31, 1987. A sample of twenty-two applications were audited to ensure compliance with Federal and Provincial criteria.

OBSERVATIONS

13.6 Some initial applications were either incomplete or incorrect. Mathematical errors resulted in an $800 underpayment of a bursary in one case and a $350 overpayment in another.

13.7 Exceptional expenses of $6300 were allowed in one case and $1,600 in another. In the second case, only $1100 was supported by documentation as required by the provincial manual.

13.8 Two bursary applications in our sample lacked signed earnings verification forms.

13.9 Bursary awards require further procedures and documentation because awards are not repayable and represent provincial dollars only. We noted however that students are not required to submit their income tax returns. As part of the earnings verification process the determination of part-time and other income would be facilitated by this requirement and in addition ensure loans and bursaries are awarded based on need.

13.10 Five instances in our sample were noted where student contributions were reported below the minimum level a student must report of $1300. Management has informed us that senior staff adjust the minimum level in certain circumstances. Many decisions were made at the staff level which resulted in a minimum number of cases being brought to the Appeals Board. The role of the Appeals Board needs to be clarified.

RECOMMENDATIONS

13.11 Following is a summary of the recommendations made to management:

- **Applications should not be processed until they are properly completed by the applicant.**
- **The minimum standards contained in the Federal Administrative manual should be followed unless more stringent standards are approved at the Provincial level.**
- **Complete and signed documentation, especially earnings verification forms, should support the bursary before it is approved.**
- **The purpose of the Appeals Board, and the role it and student aid staff have concerning questionable cases or adjustments, should be determined and set out in writing.**

14. TUITION REIMBURSEMENT REVENUE

14.1 Our audit of Tuition Reimbursement Revenue consisted of a review of the sources of this revenue and the procedures performed by the Department of Education to collect and record it.

14.2 Revenue of approximately $500,000 is received from School Units for non-resident students and from the Atlantic Veterinary College for foreign students.

14.3 We observed that the Department receives insufficient documentation to support the revenue received and there are no procedures performed by departmental staff to verify the accuracy of this revenue.

14.4 The Department of Education should request reports from the School Units and the Atlantic Veterinary College showing the number of students, rates paid and calculations to support the amount of Tuition Reimbursement Revenue submitted.

14.5 Staff of the Department of Education should verify the accuracy of Tuition Reimbursement cash receipts and also assess the reasonableness of total revenue received on an annual basis.

15. SEAWEED MARKET STABILIZATION PROGRAM

15.1 During the year we performed a review of the Seaweed Market Stabilization Program which was administered by the Department of Fisheries. The Program's objective was to stabilize employment in the mixed moss industry by maintaining a link between moss harvesters and an extracting firm.

15.2 Every fiscal year commencing in 1981-82 the Department provided significant financial assistance to the mixed moss industry. Since 1981, the Department's level of involvement steadily increased from providing the industry with interest-free financing to actually taking over the mixed moss processing operation in 1985. The Province ceased this operation in 1986 following the sale of the eastern mixed moss processing plant to an external third party.

15.3 When mixed moss processing operations ceased in 1986, the Province owned over one million pounds of mixed moss costing the Province about $855,000. The moss was sold in the fall of 1987 for $105,000, which resulted in **a loss to the Province for the period from 1982 to 1987 of over $750,000**.

16. PAYROLL - JOB CREATION PROGRAM

16.1 The payroll system for the Job Creation Program administered by the Department of Health and Social Services was reviewed.

16.2 The payroll cheques are processed on the same system as the Province's casual payroll. A critical control of this system is that payments only get processed on receipt of a bona fide timesheet. In cases where a client's timesheet was not received on time, the client's hours were being estimated and submitted by departmental staff to the Payroll Office. Payroll cheques were then held back by the Department pending receipt of a bona fide timesheet. This revised system was implemented to ensure all clients receive their cheques on a timely basis.

16.3 This procedure circumvented controls of the Province's casual payroll system, and was being done without the knowledge of the Department of Finance.

16.4 To determine how often timesheets based on estimates were prepared, we reviewed one payroll which contained approximately 100 cheques. Seven cheques were generated from estimated timesheets, and four of these were later cancelled.

16.5 In addition to the clerical effort necessary to cancel cheques, Accounting Services Division staff encountered problems preparing T4 income tax information for 1986.

16.6 We recommended that all payroll cheques be prepared on the basis of bona fide timesheets.

16.7 We also advised the Department of Health and Social Services that any contemplated changes to their payroll procedures should be discussed with the Department of Finance.

16.8 The Department of Health and Social Services has indicated that our recommendations are presently under discussion and they will advise us on their eventual solution to the problem.

17. FINES MANAGEMENT SYSTEM

INTRODUCTION

17.1 The Department of Justice is responsible for the collection of fines revenue totalling over $1 million.

17.2 Since our 1984 Comprehensive Audit of the Department of Justice, the Charlottetown Provincial Court has implemented a new computerized Fines Management System.

17.3 We reviewed the objectives, procedures, and output of the system to determine if it dealt with the concerns identified in our 1984 Comprehensive Audit Report.

17.4 Our audit approach consisted of interviews with staff and examination of key documentation such as evaluation reports, system reports, and the books of account including balancing procedures.

SYSTEM

17.5 The system contains seven computerized functions to manage the recording, collection and reporting of fines revenue. Outputs of the system include: receipts for fines revenue, non-appearance and collection letters, warrants for committal, and reports for both accounting and management purposes.

17.6 Four reports are generated and are used to record, control and report upon the fines and restitution of the Provincial Court in Charlottetown. It is expected that the system will be expanded to other provincial courts once it is proven successful.

OVERALL ASSESSMENT

17.7 We are pleased to report that the fines management system is an improvement over past attempts to record, reconcile, control, and report on the fines revenue of the provincial courts. It is hoped that the system will soon be implemented in other provincial courts.

17.8 In our opinion the Fines Management System will provide for the proper accounting and control of fines revenue.

REPORTS ON FINANCIAL AUDITS

18. INTRODUCTION TO FINANCIAL AUDITS

18.1 Section 13(1) of the Audit Act establishes my mandate for financial audits of the Public Accounts, Crown controlled or owned corporations, and of the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

18.2 In financial audits, the auditor, after an examination of records in accordance with prescribed professional standards, expresses an opinion on the financial statements prepared by the client.

18.3 During the examination the auditor may observe problems in the quality of records and financial controls. Problems may also be observed in other areas. Any deficiencies or other matters are reported in a management letter addressed to the client.

18.4 Section 16 of the Audit Act determines my reporting duties to the Legislative Assembly. Accordingly I submit the results of my financial audits for the year ended March 31, 1987 in the sections following this introduction.

19. PUBLIC ACCOUNTS

INTRODUCTION

19.1 We performed an audit of the Public Accounts for the year ended March 31, 1987 which included the Consolidated Fund and All Funds financial statements.

19.2 We have commented in a previous section on the progress being made on disclosure and presentation of the Public Accounts and improvements still required.

19.3 Our comments in this section are limited to specific items pertaining to this year's financial statement audit.

FINANCIAL STATEMENTS - ALL FUNDS

19.4 This year the PEI Grain Elevators Corporation's financial statements were consolidated into the All Funds statements in accordance with our recommendations last year.

19.5 The PEI Energy Corporation and PEI Lotteries Commission are 100 percent controlled crown corporations that should also be included in the All Funds statements.

STATEMENT OF FINANCIAL POSITION - CONSOLIDATED FUND

19.6 As reported last year the down payment for Harbourside Development Ltd. which is held in trust by solicitors and described in Note 2(j) to the financial statements is an asset of the Province that is not recorded on the Statement of Financial Position.

19.7 The installment payments are charged to an appropriation account when made but the trust fund still belongs to the Province. At March 31, 1987 payments totalled $750,000.

19.8 This fund should be included in the Statement of Financial Position.

GUARANTEED DEBT

19.9 As at March 31, 1987 guaranteed debt for the All Funds and Consolidated Fund are disclosed as $33 million and $42 million respectively. The Province was not required to make any payments on these guarantees in 1986-87.

19.10 The Province has for a number of years guaranteed a loan to the Hog Commodity Board. The balance of the guarantee at March 31, 1987 was $4.2 million. The Province continues to take the view that the Board has ample capacity to repay this loan. Last year it was projected by Government that the loan would be reduced by $400,000 when in actual fact it was reduced by only $175,000. It is our opinion that a substantial potential loss still exists.

19.11 An appropriate loss provision should be determined by Treasury Board and forwarded to the Department of Finance to be recorded in the Public Accounts.

SURPLUSES (DEFICITS) OF GOVERNMENT AGENCIES

19.12 Section 16(f) of the Audit Act requires the Auditor General to report any deficits of government agencies not covered by appropriations and any surpluses not paid into the Consolidated Fund. For the year ended March 31, 1987 we report the following:

Government Agency	Surplus (Deficit)
PEI Crop Insurance Agency	$ (227,000)
PEI Energy Corporation - Operating	320,000
- Capital	3,781,000
Mortgageco Inc. (formerly the Prince Edward Hotel and Convention Centre)	(435,000)
PEI Grain Elevators Corporation	(58,000)

The above entities with the exception of Mortgageco Inc. have each been directed by the Lieutenant Governor-in-Council to carry over their surplus or recoup their deficit. Mortgageco Inc. acccumulated deficit of $435,000 should either have been taken into the Consolidated Fund or approval received to have the loss recouped by the Crown Corporation.

ACCOUNTS WRITTEN OFF

19.13 Section 16(g) of the Audit Act requires the Auditor General to report the total amount of any claims, obligations, debts or money due to the Province that have been discharged, cancelled and released under Section 17 of the Financial Administration Act. The amount written off under this section in 1986-87 was $122,000.

20. APPROPRIATIONS

20.1 Our audit of appropriations included a review of the systems and procedures for the administration of the Province's annual budget. This entailed an audit of appropriations approved by the Legislature, additional appropriations approved by Executive Council upon recommendations by Treasury Board, transfers approved by Treasury Board, and expenditures incurred by departments.

20.2 In **Schedules A and B** attached to this report we have compared appropriations with actual expenditures in accordance with the classifications in the 1986 Appropriation Act.

	SCHEDULE A ORDINARY ($000'S)	SCHEDULE B CAPITAL ($000'S)	TOTAL ($000'S)
Appropriations			
Original Act 1986 Session	$509,643	$28,454	$538,097
Supplementary Act 1987 Session	6,918	10	6,928
Increases by Order-in-Council	2,773	-	2,773
Transfers-Ordinary to Capital	(10)	10	-
Total Appropriations	519,324	28,474	547,798
Actual Expenditures	509,868	25,397	535,265
Underexpenditures	$ 9,456	$ 3,077	$ 12,533

20.3 Section 16(h) of the Audit Act requires me to report on additional appropriations. Details are shown in **Schedule C** attached to this report. **Schedule D** also attached to this report, lists major underexpenditures.

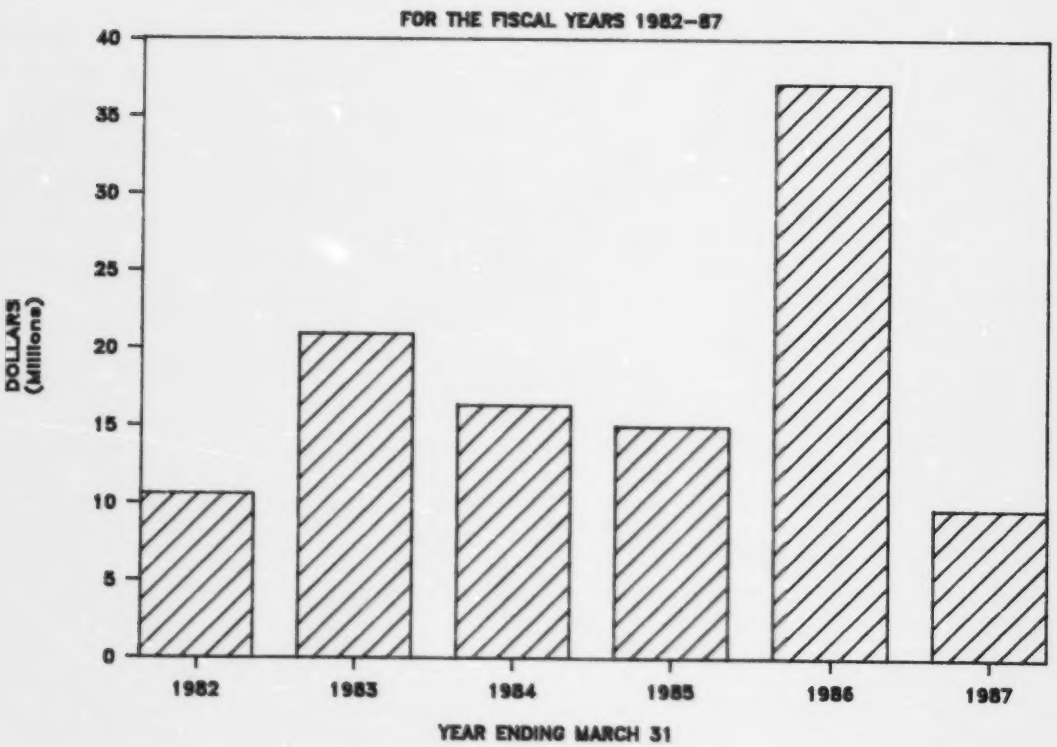
20.4 We noted during the audit that an error was made in transferring information from the budget working papers to the 1986 Appropriation Act. Further, the amounts from the budget working papers were input to the Province's accounting system for control purposes.

20.5 The result of these actions was that the General Government category was technically overspent by $44,392 and no special warrant was authorized to cover it. This is in contravention of Section 26 of the Financial Administration Act.

20.6 For the 1986-87 year, additional appropriations totalled $9.7 million compared to $37 million in 1985-86. **Exhibit 20.1** which follows indicates the additional appropriations issued over the last six years.

EXHIBIT 20.1

Additional Appropriations



21. PROVINCIAL DEPOSIT RECEIPTS

21.1 During the year our office conducted an audit of Deposit Receipts. Following is some statistical information on deposit receipts for 1987 and 1986.

	1987	1986
Principal Outstanding	$43.2M	$41.7M
Accumulated Interest	$ 4.9M	$ 4.7M
Interest Expense	$ 3.8M	$ 4.6M
Number Purchased	3,351	3,617
Number Cashed	2,434	2,260
Number Outstanding	7,554	6,637

21.2 As a result of our audit, we made recommendations on the issuance of panic cheques, documentation of journal entries, and reconciliation procedures. The Comptroller has agreed to follow up on these items.

22. CIVIL SERVICE SUPERANNUATION FUND

22.1 We performed an audit of the Civil Service Superannuation Fund for the year ended March 31, 1987. Total assets of the Fund at that date were $71 million.

22.2 An actuarial valuation report on the Fund as of March 31, 1982, indicated that there was an unfunded liability of $66 million. An updated valuation for the period ended March 31, 1987 is now in progress.

22.3 In previous reports we suggested that investment management for the Fund be contracted out to experienced professionals. This year the contracting of professional services for investment management was approved by Treasury Board and the investments of the Fund have been transferred to an external investment organization.

22.4 During the audit of the Fund, we observed that recordkeeping practices and internal control need to be improved to ensure the prevention and detection of errors.

22.5 This was reported last year but effective corrective action has not been taken.

22.6 The Department of Finance should take the steps necessary to have these problems corrected.

23. TEACHERS' SUPERANNUATION FUND

23.1 We performed an audit of the Fund for the year ended June 30,1987. At year-end, Fund assets totalled $52 million.

23.2 Actuarial valuations are required by the Teachers' Superannuation Act at least every five years. The most recent valuation was as of July 1982 and showed an unfunded liability for the Fund of $106 million. An actuarial valuation is currently being performed for the period ended June 30, 1987.

23.3 Our audit of pension payments discovered that one pension applicant was receiving pension payments even though he was not yet eligible to receive a pension. The individual had received three monthly payments totalling $5,000.

23.4 We brought the matter to the attention of the Commission and we have been advised that arrangements have been made to recover the overpayment. Greater care should be exercised when reviewing the eligibility of pension applicants.

23.5 Section 18 of the Act states in part that "The pension payable under this Act shall be calculated upon the average yearly salary on which the teacher made contributions..." In a June 1985 minute, the Commission stated that this section be interpreted as the salary scale and not the actual salary earned in a year. In our opinion, this interpretation is inconsistent with the wording of Section 18 of the Act.

23.6 In one instance, application of this interpretation resulted in an annual pension of $3,650 higher than if the actual salary earned was used in the pension calculation.

23.7 **The Commission should obtain a legal opinion to determine if the Act is being complied with.**

23.8 Section 10(2) of the Teachers' Superannuation Act states "All pensions, payments, refunds and administrative expenses shall be a charge on and payable out of the fund." To date administrative expenses such as salaries and related costs have been paid out of the Department of Education's appropriation account. Consideration should be given to charging the Fund with administrative expenses.

23.9 In last year's report we recommended that the Department of Education match all employee contributions unless the employer had already contributed in a previous period. The Department has now agreed to this recommendation.

24. M.L.A. PENSION FUND

24.1 An audit was performed on the Fund for the year ended March 31, 1987. At year-end the Fund had assets totalling $3 million. An unfunded liability of $3.4 million existed at March 31, 1982, the date of the latest actuarial valuation. At the time of writing this report an actuarial valuation for the year ended March 31, 1987 was being conducted.

24.2 Last year I recommended that in order to maximize the income of the fund, the existing legislation should be changed to permit investments in addition to provincial deposit receipts. This has been done and the board administering the Fund has authority to select other investments.

24.3 An outstanding item from last year is related to Section 16(2) of the Legislative Assembly Retirement Allowance Act which states: "The Minister of Finance shall pay annually from the Consolidated Fund into the M.L.A. Pension Fund such sum as the Lieutenant Governor-in-Council directs to assist in defraying the cost of allowances under the Act". We were advised by legal counsel that under existing legislation an Order-in-Council was required as authority for these payments. This was brought to the attention of the Department of Finance.

24.4 The Department of Finance has taken the necessary steps to comply with this recommendation.

25. P.E.I. CROWN BUILDING CORPORATION

INTRODUCTION

25.1 The major asset presently owned by the Crown Building Corporation is the public administration building complex. Last year I reported that notice was served under the Crown Proceedings Act by the Commissioners of Sewer and Water Supply of Charlottetown against the Government of Prince Edward Island pertaining to the ownership of certain lands upon which the Jones and Sullivan buildings and part of the parking lot are situated.

25.2 There have been no further developments in the past year to reach a settlement. Neither the likelihood of a loss occurring nor the ultimate amount of such a loss should it occur are determinable.

SINKING FUND

25.3 The Corporation has debentures payable of $5.4 million which mature on April 1, 2006, and are callable at the option of the Corporation on or after April 1, 2001. A sinking fund was established to provide for the retirement of these debentures. In 1986-87, the sinking fund increased by $630,000. The market value of sinking fund investments was $5,960,000 at March 31, 1987, exceeding the amount of the debentures by $560,000. When the issue is retired in 14 or 19 years, a substantial surplus will remain.

ATLANTIC VETERINARY COLLEGE PROJECT

25.4 The Province of Prince Edward Island is discharging its responsibility to construct the College through the Crown Building Corporation. The estimated cost of the project is $42.5 million. The project is cost shared based on 1983 constant dollars. The breakdown is as follows: 50 percent Federal Government; 16 percent Nova Scotia; 13 percent New Brunswick; 1.5 percent Newfoundland; and 19.5 percent Prince Edward Island. P.E.I. is also responsible for 100 percent of any cost overruns. The four Atlantic Provinces will share in the operating costs in return for the right to designate an agreed number of students.

25.5 As of July 1987, Project Management anticipated no net cost overrun.

25.6 The total cost of completed construction and equipment purchases was $39.4 million at March 31,1987. Estimated remaining expenditures are approximately $3.1 million. The project is expected to be completed by the end of 1988.

25.7 The first class of students commenced in September 1986. Ownership of the College was transferred to the University of Prince Edward Island on April 1, 1987.

25.8 It is expected that upon completion of the Project, the Province will take back a mortgage from the University for the amount of P.E.I.'s total share of costs, and provide annual grants to U.P.E.I. for amortizing the mortgage. This is similar to the manner in which the Province pays and accounts for school construction costs.

26. P.E.I. GRAIN ELEVATORS CORPORATION

26.1 Last year we reported that the Corporation had cost the Province in excess of $1.2 million over a six year period. We recommended that the Minister of Agriculture review the operations of the Corporation and determine a course of action to minimize the financial impact on the Province.

26.2 At the request of the Minister a five year plan was prepared this year. It was submitted to the Minister by the Board of the Grain Elevators Corporation and we were advised that the plan is currently being reviewed.

26.3 This year the Corporation had its fiscal year end changed from July 31 to March 31. An audit of the Corporation was performed for the eight months ended March 31, 1987. The Corporation incurred an operating loss for this period of $409,000. This large loss, and those of prior years, highlight the serious financial difficulties of the Corporation.

26.4 The Corporation had recorded inventory of over $1 million at March 31, 1987. However, a significant portion of the inventory at the Kensington Elevator was not weighed. Based on estimated physical quantities on hand for the unweighed inventory, an inventory write down of $58,000 was included in the financial statements by the Corporation.

26.5 Because we were not able to satisfy ourselves as to the accuracy of the estimated quantities, a qualified audit report was issued.

26.6 We have advised the Corporation that in future either the inventory must be counted or steps taken to ensure a reliable estimate is obtained.

26.7 Based on information obtained from the Corporation's management, it appears that charges to farmers for the drying of grain are well below charges by Elevator's operating in Nova Scotia and New Brunswick. The Corporation has not determined whether the present revenues for drying are covering drying costs.

26.8 Drying charges presently in effect should be reviewed to ensure that direct costs are being recovered and that the service is making a contribution towards general overhead of the Elevators.

26.9 A number of other observations and recommendations were brought to the attention of the Corporation as a result of the audit.

26.10 We observed a determined effort on the part of the Corporation, and in particular the Chairman of the Board, to address our concerns and to improve the financial position of the Corporation.

27. P.E.I. CROP INSURANCE AGENCY

27.1 We performed an audit of the Agency for the year ended March 31, 1987. The Agency had a successful year generating a net income of $956,000. As a result, the deficit of the Agency has been reduced to $227,000 at March 31, 1987. Executive Council has decided that the deficit will be recouped by the Agency.

27.2 In our audit sample of indemnities paid we noted several cases where the Proof of Loss forms were dated subsequent to the relevant cut-off date for reporting such losses. Management indicated that in these cases verbal notification had been received before the required date. We also noted one case where a claim from the 1985 crop year was not paid until July of 1986 and was not recorded as payable at year end because the claim had not been documented.

27.3 Documented records are required to ensure a proper cut-off for claims and provide the Agency with a documented record in the event of a disagreement.

27.4 The Agency should ensure that all reported losses are documented including the nature of the loss and the date it was reported.

27.5 When checking premium calculations we noted three instances where farmers were undercharged a total $4,700.

27.6 Steps should be taken to ensure that premiums are calculated correctly.

27.7 Computerization of several important aspects of the Agency's operation has still not been addressed. Effective use of the computer would reduce calculation errors and facilitate the preparation and balancing of the subledgers, the Cash Journal and the General Ledger.

27.8 The Agency should prepare a strategic plan for the development and implementation of a micro-computer system. Controls should be in place to ensure an efficient and effective conversion process.

27.9 During our audit we noted a few cases where the farmer's deposit for the 1987 crop was applied against his 1986 premium which was still outstanding.

27.10 The Board of Directors should establish a policy to deal with accounts which are not paid by the deadline date.

27.11 Agency management concurred with our findings and appropriate steps to implement our recommendations are expected.

28. P.E.I. LAND DEVELOPMENT CORPORATION

28.1 During our financial audit of the Land Development Corporation we noted several instances where lease documents were signed a considerable time after the renewal date of the lease. Delays in finalizing lease agreements add to the risk of loss to the Corporation and result in accounts receivable balances which are not supported by lease agreements. As well, misunderstandings between the lessee and the Corporation could take place where documentation is not prepared.

28.2 We recommend that all lease renewal agreements be signed on a timely basis.

28.3 We noted during the audit that in some instances the Corporation was unwilling to renew leases on a five year basis. In these cases shorter term leases or extensions to the expired leases should be considered if the lessee is to be allowed continued use of the property after the expiry date.

28.4 The Corporation noted our comments and indicated that much more staff time and emphasis will be placed on this area in the future.

28.5 During the 1986-87 fiscal year, the Corporation began using a computerized billing program to calculate interest charges and produce client billings. We noted deficiencies in the calculation methods of this program which result in reduced revenue to the Corporation.

28.6 We recommended that the amount of lost revenue be determined and if significant, corrective action should be taken.

28.7 The Corporation is reviewing the situation and initial indications are that lost revenue is not a significant amount. They are also attempting to determine how costly it would be to change the computer program to correct these deficiencies.

29. HOSPITAL SERVICES COMMISSION OF PRINCE EDWARD ISLAND

29.1 Our office performs an audit on the Hospital Services Commission annually. Two significant announcements affecting the Commission were made during the past year. The first was the amalgamation of the Hospital Services Commission and the Health Services Commission. The second announcement was the intended relocation of the Commission to Montague.

29.2 The relocation will require a great deal of planning as a new facility is to be constructed, staffing changes are expected and the move itself will be a temporary disruption to normal activities.

29.3 Our main concern is that internal control over hospital and medical claim payments not be compromised during the transition.

29.4 Previously we reported that for several years the Commission had made non-interest bearing advances to the Queen Elizabeth Hospital to cover expenditures outside the cost sharing guidelines. We recommended that Treasury Board ensure suitable arrangements were made to recover the advance. The matter was resolved during the year when the advance was eliminated by an appropriation from the Consolidated Fund.

29.5 Our audit this year revealed several items which required adjustment or correction. While most of these items had a relatively small dollar value, these occurrences increase the likelihood of large errors occurring. As well, several adjustments were needed because the general ledger accounts were not finalized and no trial balances or listings were prepared for control accounts causing delays in the commencement of the audit.

29.6 The Commission should ensure the necessary steps are taken to have the books of account finalized and ready for audit as soon as possible after year end.

30. P.E.I. MUSEUM AND HERITAGE FOUNDATION

30.1 We performed a financial audit of the Foundation for the year ended March 31, 1987. This organization incurs annual expenditures of $827,000 and at year end held assets totalling $807,000.

30.2 Following are the main observations resulting from the audit:

- Books issued to heritage sites for resale are not recorded.
- Shipping orders are not prenumbered making it impossible to ensure all sales have been invoiced.
- Accounting procedures have been computerized but the software has not been fully utilized resulting in duplication and unnecessary effort for accounts payable, customer invoices and statements, and inventory recordkeeping.
- The perpetual inventory system produces information which contains inaccuracies and is not being utilized by management for planning.

30.3 The following recommendations were made to correct these deficiencies:

- **Heritage sites should be invoiced as regular customers and accounts receivable recorded when books are issued.**
- **Shipping orders should be prenumbered and accounted for on a regular basis.**
- **The perpetual inventory system should be reviewed and procedures strengthened to eliminate errors. Management should make use of the system for planning and control purposes.**

30.4 Management has replied to our detailed report and has indicated that all of our recommendations have either been implemented or will be this year.

31. P.E.I. HUMAN RIGHTS COMMISSION

31.1 Last year an audit of the Commission was performed at the request of the Minister of Justice. It covered the period to October 31, 1986 and was requested to determine the funding requirements of the Commission.

31.2 The audit to March 31, 1987 was completed this year and total operating costs for the year were $90,000. A number of recommendations made last year to improve internal control were implemented.

32. SELF-INSURANCE PROGRAM

32.1 In May 1986, Executive Council approved a Self-Insurance Program. As at March 31, 1987 the Program provided liability coverage for the Government of Prince Edward Island, the five regional school units, the hospitals and the School of Nursing. Premiums paid to the Program by the insured entities during the fiscal year were set at the same rate paid by those entities for commercial coverage in 1985-86.

32.2 At the time of our audit there had been no decision made regarding the permanent structure of the Self-Insurance Program. The program is currently administered through Treasury Board and in our opinion is not a separate legal entity. As a result, the financial activities of the insurance program are really no different than any other government program and should be accounted for as such.

32.3 If it is government's intention to create a reserve or fund for possible future losses, it would appear that the Self-Insurance Program needs to be established as a separate legal authority. If a crown corporation is established, then according to Section 65 of the Financial Administration Act, a Minute-in-Council would be necessary to allow the entity to retain any profits.

32.4 We recommended to Treasury Board that the Department of Justice be contacted to determine the legal status of the Self-Insurance Program.

33. EXPO '86

33.1 Last year we reported unaudited financial information to December 31, 1986. The accounts are now complete and have been audited by this office. Summary information for the project is as follows:

Total Expenses	$849,000
Federal Contribution	500,000
Net Expense	$349,000

33.2 At the end of Expo '86 a number of items of furniture and equipment were returned to P.E.I. for use within Government. Our audit revealed that the normal procedures for the receipt and disposition of items of this nature were not followed. A listing of items received was not prepared and compared to items shipped, and controls to limit access and ensure an orderly disposition were lacking.

33.3 Several months after the Expo '86 assets had arrived on P.E.I. a number of items were still being held in storage. We recommended that the Department of Tourism and Parks make arrangements with the Department of Transportation and Public Works to review the assets in storage to determine what should be done with them.

33.4 During our review of project expenditures we noted an overpayment of $57,000 to one of the suppliers of the project. This overpayment was subsequently refunded to the Province.

34. SUPREME COURT TRUST ACCOUNTS

34.1 In accordance with Section 43(1) of the Judicature Act our office conducts an annual audit of the Supreme Court accounts. The Supreme Court maintains trust accounts for money received by the Court as a result of a court order or in anticipation of a settlement of a litigious matter. At March 31, 1987, trust accounts totalling $1.9 million were being held by the Supreme Court.

34.2 During the year a payment of $184,000 in retained earnings was transferred to the Consolidated Fund by the Supreme Court. This action was authorized by Order-in-Council and resulted from our previous recommendation to pay a reasonable proportion of the retained earnings into the Consolidated Fund.

IMPLEMENTATION OF RECOMMENDATIONS

35. IMPLEMENTATION OF RECOMMENDATIONS

INTRODUCTION

35.1 Many of our audits include recommendations for improvement. It is necessary to follow up on our recommendations to ensure that the underlying problems are receiving the attention they deserve. This section is a summary of past recommendations and the action which has been taken by those responsible for implementation.

35.2 Because our recommendations to Treasury Board are relatively few in number and deal with policy or government-wide issues of importance, we have been able to list them individually. Our comprehensive audit reports on the other hand usually contain a large number of recommendations. These have been dealt with in summary fashion.

35.3 How quickly recommendations are implemented depends on many factors. Sometimes implementation is postponed for valid reasons. In all cases I intend to follow through until the recommendations have been dealt with in a satisfactory manner.

36. RECOMMENDATIONS TO TREASURY BOARD

36.1 Under the Financial Administration Act, Treasury Board has a number of responsibilities including preparation of the Budget Estimates, administration of the public service and financial management.

36.2 Each year during the course of our audits, we encounter matters affecting these responsibilities that require decisions and direction from Treasury Board. This year was no exception and the observations and recommendations made to Treasury Board pertaining to the 1987 fiscal year are included in the previous sections of this report.

36.3 For the most part Treasury Board has responded positively and quickly to the recommendations made. However, there are several items from prior years such as Performance Appraisal, Treasury Board Policy Manual and Program Evaluation where progress has been slow. If Treasury Board's intended course of action is carried out, these items should be acted on this year.

36.4 The purpose of this section is to follow up on previous years' recommendations until they have been dealt with satisfactorily. Following is a summary of prior year's recommendations and Treasury Board's response:

Recommendations	**Treasury Board Response**
Roles and responsibilities related to overtime. (Section 12, 31 March 1986)	The Civil Service Commission has worked with a number of departments in the development of an overtime policy.
Planning, budgeting, establishing need and evaluating alternatives for overtime. (Section 12, 31 March 1986)	A committee has been established to review the implications of overtime and how it can be reduced. Action has been initiated which has resulted in the reduction of overtime for two divisions. Efforts to reduce costs and provide effective management of overtime are continuing.
Government owned and leased vehicles. (Section 13, 31 March 1986)	Treasury Board has approved a new comprehensive vehicle policy which covers a wide range of matters relating to the acquisition and use of vehicles.
Guaranteed debt loss provision. (Section 15, 31 March 1986)	Treasury Board believes the Hog Commodity Marketing Board has the capability to repay these loans and is not prepared to "write off" all or part of the loan at this time. The Aquaculture Loan Program guarantees will be included in the Schedule of Guaranteed Debts of the Public Accounts.

Recommendations	Treasury Board Response
Grain Elevators Corporation capital acquisitions. (Section 21, 31 March 1986)	Treasury Board has requested the necessary controlling mechanisms be considered in conjunction with the five year plan prepared by the Corporation.
Prince Edward Hotel and Convention Centre Agreement of Purchase and Sale. (Section 28, 31 March 1986)	CP has repaid the $5 million mortgage. This leaves the $4 million performance debenture as the only outstanding issue from the CP transaction. The Department of Finance will be responsible for ongoing monitoring of the performance debenture.
Statistics Review and Analysis. (Section 2, 1986)	An interdepartmental committee is working to identify the roles in collection of statistical data. A primary objective is to eliminate any duplication of effort or costs.
Performance Appraisal. (Section 20, 1986)	Treasury Board has reviewed the issue of performance appraisal with the Civil Service Commission. The Commission has provided performance appraisal consulting services to a number of departments. In addition, the Commission is in the final stages of designing a new performance appraisal program. The Commission and Treasury Board will formulate an overall policy governing performance appraisal.
Program Evaluation. (Section 7, 1981-82)	Treasury Board recognizes the value of Program Evaluation and intends to develop an evaluation process which will reflect the capability of departments and central agencies.
Treasury Board Policy Manual. (Section 6, 1980-81)	Work on the Policy Manual continues with a view to finalizing the contents and issuing the manual as soon as possible. Every effort will be made to finalize the project in the coming year.

37. RECOMMENDATIONS TO DEPARTMENTS AND AGENCIES

37.1 The following sections provide an update on the significant recommendations made to departments and agencies in previous reports.

38. P.E.I. LAND DEVELOPMENT CORPORATION - 1985-86

38.1 Our annual report last year included a summary of the observations and recommendations resulting from our comprehensive audit. We have been advised by the General Manager on the status of these recommendations and the progress on the more significant items is indicated below.

38.2 The Minister of Agriculture discussed the role of the Corporation as well as the role of the P.E.I. Lending Authority and the Crop Insurance Agency with Executive Council. As a result, Executive Council established a committee to examine the desirability and feasibility of amalgamation. The committee has made its recommendations, however, no final decision has been made by Executive Council.

38.3 A concentrated effort has been made to ensure farm plans are properly prepared so that the economic viability of applicants' farm operations can be determined before the Corporation provides financing or leasing arrangements.

38.4 A review of collection procedures has been carried out and a conscious effort will be made by the Corporation to follow its collection policy. An additional staff person has been hired allowing the administrators more time to keep on top of collection procedures.

38.5 Land inventories deemed surplus have been advertised publicly. Land which has been in inventory for five years or longer has been tendered. Both of these methods have met with some success. The Corporation has, however, not listed any surplus lands with private realtors.

38.6 The Corporation has reassessed its approach to land transactions. Leases can now be renewed at the lower of the rate in the original lease or the new composite rate of the Corporation.

38.7 The Corporation's accounting policy has been changed to properly account for the recording of profits and losses on leases.

38.8 The eligibility requirements relating to off farm income for part-time farmers have been removed. As well, the asset limits of individuals and multiple applicants have been removed. The changes allow farmers easier access to the Corporation's programs.

38.9 We are satisfied that the recommendations contained in last year's report on the Land Development Corporation are being addressed.

39. P.E.I. DEVELOPMENT AGENCY - 1985-86

39.1 Our annual report last year included a summary of the observations and recommendations resulting from our comprehensive audit of this Agency. The Chief Executive Officer has provided information on the status of these recommendations and progress on the more significant items is summarized in the following paragraphs.

39.2 The Agency has developed a planning system with the assistance of an external consultant. An operational plan with quantified expected results and performance indicators has been approved by the Agency's Board of Directors. As well, a strategic overview, outlining the key issues facing the Agency, has been prepared.

39.3 One of our recommendations related to the development of a comprehensive and integrated prospecting strategy. Subsequent to completion of our annual report last year, a "Prospecting Strategy for Prince Edward Island" was prepared and tabled during the 1987 session of the Legislature.

39.4 The Agency Board of Directors has approved a reorganization of the Board and Committee structure which should eliminate the concerns expressed in our comprehensive audit report. In addition, a code of conduct designed to give guidance to staff and directors was implemented.

39.5 We made a number of recommendations for improvements in the Marketing Division most of which have been addressed. Concerns were expressed regarding the eligibility of the service sector for receiving marketing assistance and the effectiveness of serving repeat clients. We have been advised that the Agency has requested that DRIE include these issues in the independent evaluation of the Marketing ERDA to be completed in 1988.

39.6 The system for processing program payments in the Finance Division has been strengthened. As well, the monitoring process for client financial statements has been reorganized in accordance with our recommendations.

39.7 The Agency is continuing to work on the development of a client costing system and to improve coordination with other government departments with a view to avoiding duplication.

39.8 Overall we are satisfied that the Agency has dealt with the matters raised in our comprehensive audit report.

40. DEPARTMENT OF INDUSTRY - 1985-86

40.1 The Deputy Minister has provided information on the status of the recommendations contained in our Comprehensive Audit Report last year, and the progress is summarized in the following paragraphs.

40.2 The Department has developed an approach to strategic and operational planning, program evaluation, and performance monitoring. A computer application plan has been initiated to coordinate services to clients and improve the administration of programs.

40.3 All responsibilities and budgets for off Island industrial prospecting have been transferred to the Development Agency.

40.4 The Small Business Incentives Review Board has structured a sub-committee to review forgiveness schedules.

40.5 Target dates have been set to obtain approval of National Institutional Training plans and prices. The development of measurable objectives is considered difficult by the Department because the Federal Government determines program allocation and criteria.

40.6 Limited action has been taken on the development of a case action plan for each client.

40.7 The Regional Services Centres have been restructured by establishing three coordinator positions and clear lines of authority for staff.

40.8 **In general, we are satisfied that the Department is actively implementing the recommendations of our comprehensive audit.**

41. CREDIT SERVICE AUTHORIZATIONS - 1985-86

41.1 Last year we reported our findings and conclusions on the use of Credit Service Authorizations in the Department of Health and Social Services.

41.2 In our report we made recommendations dealing with; defining the usage of CSA's, the quality of information on CSA's, signing authorities, and supporting documentation.

41.3 The Director of the Management Services Division has advised that some recommendations have been dealt with and a work plan has been developed to resolve the remainder.

42. DEPARTMENT OF TOURISM AND PARKS - 1984-85

42.1 Last year we reported that most of the recommendations in our comprehensive audit report were being addressed. We received an update on the status of our recommendations and the outstanding ones are being dealt with.

43. DEPARTMENT OF COMMUNITY AND CULTURAL AFFAIRS - 1984-85

43.1 Last year the Department indicated it would be conducting an in-house assessment of inspection services.

43.2 We have been advised by the Deputy Minister that the electrical inspection section has been transferred to the Department of Labour and an assessment of the remaining inspection services has not been performed.

44. DEPARTMENT OF HEALTH AND SOCIAL SERVICES - 1983-84

44.1 We have reported for the last two years that the measures to prevent financial overpayments should be strengthened.

44.2 The Policy and Planning Coordinator has indicated that the Department is still planning a complete overhaul of the overpayment/prosecution mechanism by addressing both the collection and prevention of overpayments.

OFFICE OF THE AUDITOR GENERAL

45. OFFICE OF THE AUDITOR GENERAL

MANDATE OF THE AUDITOR GENERAL

45.1 The Auditor General is a servant of the Legislative Assembly, independent of government and responsible for the audit of government administration within the provisions of the Audit Act.

45.2 The Auditor General is a vital part of the legislative framework that exists to hold the administration accountable for their stewardship of public funds.

RESPONSIBILITIES

45.3 The responsibilities of the Auditor General are set out in the Audit Act. The primary responsibility is the audit of the Public Accounts of the Province. This includes an objective examination of the accounts and records pertaining to the receipt and disbursement of public funds. In addition, the Auditor General is responsible for the audit of certain crown corporations under statute as well as those not subject to financial audit by other auditors.

45.4 The Auditor General is also responsible to conduct any comprehensive audit or examination he considers necessary to determine whether any agency of government is achieving its purpose and is doing so economically and efficiently. This additional responsibility was conferred with the revision of the Audit Act in 1980. The time spent on comprehensive auditing is limited by staff resources available, but on a cyclical basis, significant audit coverage can be achieved in most departments and agencies.

AUDIT PROCESS

45.5 Audits of the Province's Public Accounts and other financial statement audits are performed in accordance with the standards of the Canadian Institute of Chartered Accountants. These standards relate to the professional qualifications of auditors, minimum examination requirements and reporting responsibilities.

45.6 Audit work on government departments and programs pertaining to the economic and efficient achievement of objectives is performed based on state of the art methodologies evolving primarily from the Canadian Comprehensive Auditing Foundation and the other legislative audit offices.

45.7 We are always striving to make our audits more effective and efficient, while maintaining our professional standards of examination and reporting.

45.8 We acquired the services of an outside consultant to conduct an efficiency review of our financial statement audits. The report provided some useful suggestions and information on new developments in auditing.

45.9 An in-depth review of our comprehensive audit work was also performed. Comprehensive auditing is a relatively new activity in provincial legislative audit offices. This type of review provided us with feedback on our transition into this stream of auditing. It also provided us with suggestions to improve the efficiency and effectiveness of our comprehensive audits.

OFFICE ADMINISTRATION

45.10 Under the Audit Act, the Legislative Audit Committee, a standing committee of the Legislative Assembly is responsible for the administration of the office. The Committee consists of the Speaker, who is Chairman, the Leader of the Opposition and the Minister of Finance.

45.11 The main functions of the Committee are clearly defined in the Act and ensure the office's operations and resources are determined independent from government.

45.12 The annual budget for the office is submitted to this Committee for review. The Committee then submits their recommended budget for approval of the Lieutenant Governor-in-Council before it is laid before the Legislative Assembly with the other estimates for final approval.

45.13 During the year a strategic overview and plan was prepared for the office. It outlines not only strategic issues, but also a three- year plan, and a detailed operational work plan for the current year. It provides direction for our audit activities, and will be updated annually.

45.14 The office is subject to a practice inspection on a periodic basis by the Institute of Chartered Accountants of Prince Edward Island which is responsible for the regulation of public accounting. The inspection process is designed to protect the public interest by ensuring this office meets the standards required by the profession.

ORGANIZATION AND STAFFING

45.15 The office consists of the Auditor General, 3 Audit Directors, 14 audit positions and 1 administrative position. Four of these positions are filled by university graduates who are studying and articling to attain their chartered accountant designation. One position is filled by a university graduate, studying in the certified management accounting program. One person from the office wrote the Uniform Final Examinations this year and attained his CA designation.

45.16 The office was reorganized during the year. Two senior levels of management were combined into one which will result in a more streamlined and efficient management structure. In addition, significant cost savings were realized.

45.17 With the new mandate provided in the Audit Act in 1980, there is no limit to the amount of work this office could be doing. On the other hand any additional work requires more staff which entails additional cost.

45.18 It is not possible, or financially practical to have the Auditor General attempt to audit all of government each year. Therefore, it is my intention to perform sufficient audit work to adequately cover government programs on a cyclical basis in addition to my annual audits of the Public Accounts and certain Crown Corporations.

45.19 There is no question, in my view, that the audit observations and recommendations made by this office contribute to an improved government administration.

PROFESSIONAL ACTIVITIES

45.20 The office is a sustaining member of the Canadian Comprehensive Auditing Foundation. The Foundation performs research and provides professional development courses, publications and conferences to further the development of comprehensive audit methodology.

45.21 Members of the office participate in various meetings and serve on several committees jointly with representatives from other provincial legislative audit offices and the Auditor General of Canada.

45.22 An important relationship is also maintained with the Institute of Chartered Accountants of P.E.I., and the Canadian Institute of Chartered Accountants. Membership on the Public Sector Accounting and Auditing Committee, as well as other provincial and national committees helps ensure the office is kept abreast of important developments in accounting and auditing.

SCHEDULES

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1986/87	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	EXPENDITURES 1987	EXPENDITURES 1986	UNDER EXPENDITURES
AGRICULTURE	$ 23,193,900	$ -	$ -	$53,900	$22,697,036	$16,689,348	$550,764
LAND DEVELOPMENT CORPORATION	560,800	-	231,100	3,100	794,926	546,250	74
PEI GRAIN ELEVATORS CORPORATION	756,600	-	-	-	623,913	525,623	132,687
COMMUNITY & CULTURAL AFFAIRS	11,721,900	462,100	-	40,600	12,110,853	11,281,573	113,747
LAND USE COMMISSION	93,100	44,000	-	800	137,000	91,338	900
LABOUR	743,200	35,500	-	8,000	751,006	619,070	35,694
GENERAL EDUCATION	7,711,500	43,100	-	36,500	7,457,608	6,598,776	333,492
ELEMENTARY AND SECONDARY EDUCATION	79,794,700	-	-	-	79,608,047	74,769,340	186,653
POST SECONDARY EDUCATION	25,115,300	-	-	-	25,108,552	21,619,881	6,748
VOCATIONAL PROGRAMMING	3,718,200	-	-	-	3,718,200	3,607,500	-
TOURISM AND PARKS	6,823,000	-	-	49,500	6,536,164	6,122,630	336,336
EXECUTIVE COUNCIL	1,729,200	250,000	-	14,900	1,945,503	1,551,179	48,597
FINANCE	5,981,900	169,500	-	52,300	6,136,355	6,600,706	67,345
PEI LENDING AUTHORITY	944,200	-	250,258	7,200	1,201,658	3,353,244	-

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1986/87	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	EXPENDITURES 1987	EXPENDITURES 1986	UNDER EXPENDITURES
INDUSTRY	$ 9,823,500	$ -	$ -	$ 28,000	$ 9,018,720	$ 8,549,409	$ 832,780
PEI DEVELOPMENT AGENCY	7,599,200	747,400	243,026	14,100	8,603,716	7,448,022	10
GEORGETOWN SHIPYARDS	764,000	-	747,411	-	1,511,411	808,567	-
HEALTH & SOCIAL SERVICES	71,624,800	958,500	-	381,800	72,871,993	67,321,630	93,107
ADDICTION SERVICES	2,924,200	-	-	27,000	2,932,904	2,794,207	18,296
HOSPITAL SERVICES COMMISSION	67,659,600	1,000,000	-	1,310,600	69,542,074	64,570,223	428,126
HEALTH SERVICES COMMISSION	21,311,200	1,200,000	230,734	11,000	22,752,934	20,608,059	-
ENERGY AND FORESTRY	14,526,400	-	-	48,400	12,021,380	11,459,307	2,553,420
PEI ENERGY CORPORATION	902,200	400,000	-	1,700	1,016,930	1,136,987	286,970
JUSTICE AND ATTORNEY GENERAL	11,355,300	886,100	-	66,500	12,264,678	10,190,845	43,222
PEI HOUSING CORPORATION	2,779,100	-	-	17,800	2,349,604	3,503,072	447,296
FISHERIES	2,634,300	-	-	4,300	2,425,313	2,895,532	213,287
LEGISLATIVE ASSEMBLY	2,222,000	-	-	3,000	2,176,551	1,542,491	48,449
TRANSPORTATION & PUBLIC WORKS	41,384,500	548,000	1,070,600	215,100	43,217,599	42,068,948	601
PEI CROWN BUILDING CORPORATION	597,800	-	-	-	366,950	44,212	230,850

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1986/87	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	EXPENDITURES 1987	EXPENDITURES 1986	UNDER EXPENDITURES
OTHER CURRENT EXPENDITURES							
AUDITOR GENERAL	$ 852,100	$ -	$ -	$ 8,800	$ 733,062	$ 776,452	$ 127,838
CIVIL SERVICE COMMISSION	777,700	-	-	7,300	784,849	754,161	151
GENERAL GOVERNMENT	10,197,400	174,100	-	(2,427,900)	7,987,992	7,107,232	(44,392)
VICE REGAL VISIT	-	-	-	-	-	23,460	-
LOAN GUARANTEE PAYMENT	-	-	-	-	-	1,105,036	-
TREASURY BOARD	463,800	-	-	5,400	462,941	418,757	6,259
COUNCIL OF MARITIME PREMIERS	602,700	-	-	-	560,467	621,696	42,233
DEBT CHARGES	69,753,600	-	-	-	67,438,936	61,902,264	2,314,664
TOTALS	$509,642,900	$6,918,300	$2,773,129	$(10,300)	$509,867,825	$471,627,027	$9,456,204

NOTE: FOR COMPARATIVE PURPOSES THE 1986 EXPENDITURES HAVE BEEN RESTATED TO REFLECT DEPARTMENTAL RESTRUCTURING IN THE 1986-87 FISCAL YEAR.

CAPITAL EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1986/87	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	EXPENDITURES 1987	EXPENDITURES 1986	UNDER EXPENDITURES
TRANSPORTATION & PUBLIC WORKS	$28,131,000	-	$ -	$10,300	$25,073,332	$34,424,765	$3,067,968
ENERGY AND FORESTRY	72,800	9,900	-	-	82,618	127,916	82
TOURISM AND PARKS	250,000	-	-	-	241,364	-	8,636
EDUCATION GENERAL	-	-	-	-	-	53,292	-
TOTALS	$28,453,800	$9,900	$ -	$10,300	$25,397,314	$34,605,973	$3,076,686

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	LAND DEVELOPMENT CORPORATION		
420/87	BAD DEBT EXPENSE		$ 231,100
	To cover the increase in provision for doubtful accounts (exceeded budget).		
	TOTAL		**$ 231,100**
	DEPARTMENT OF COMMUNITY AND CULTURAL AFFAIRS		
614/86	FISH AND WILDLIFE CO-OPERATIVE WATERSHED MANAGEMENT		$ 52,100
	To implement the Watershed Management Program:		
	Salaries	$ 40,000	
	Materials and supplies	4,100	
	Travel	8,000	
714/86	UNDERGROUND STORAGE TANK PILOT PROJECT		35,000
	To implement the new Environment Canada Project:		
	Salaries	$ 24,500	
	Materials and supplies	2,000	
	Travel	8,500	
63/87	CHARLOTTETOWN AREA DEVELOPMENT CORPORATION		375,000
	To cover C.A.D.C. losses on the R.T. Holman Limited receivership.		
	TOTAL		**$ 462,100**
	LAND USE COMMISSION		
621/86	COURT APPEAL		$ 44,000
	Costs of legal appeal not budgeted for:		
	Administration	$ 1,200	
	Professional services	19,000	
	Salaries	22,600	
	Travel	1,200	
	TOTAL		**$ 44,000**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	
	DEPARTMENT OF LABOUR	
24/87	INDUSTRIAL RELATIONS Professional services forecast to exceed budget.	$ 13,000
70/87	LABOUR RELATIONS BOARD Cost of legal fees for representing labour board in labour strike court action.	22,500
	TOTAL	**$ 35,500**
	DEPARTMENT OF EDUCATION	
64/87	GENERAL EDUCATION - EDUCATION SERVICES Forecast for Atlantic Provinces Special Education Authority exceed original budget.	$ 43,100
	TOTAL	**$ 43,100**
	EXECUTIVE COUNCIL	
619/86	ROYAL COMMISSION ON THE POTATO INDUSTRY To set up a budget for the new Royal Commission.	$ 106,000
65/87	ROYAL COMMISSION ON THE POTATO INDUSTRY Forecasted expenditures to exceed original budget.	20,000
31/87	PLANNING AND RESEARCH FUND Federal E.R.D.A. Planning Agreement. Agreement called for expenditures greater than amount budgeted.	124,000
	TOTAL	**$ 250,000**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	
	DEPARTMENT OF FINANCE	
66/87	REVENUE DIVISION To increase the provision for bad debts on sales tax.	$ 169,500
	TOTAL	**$ 169,500**
	P.E.I. LENDING AUTHORITY	
422/87	PROVISION FOR DOUBTFUL ACCOUNTS Actual provision exceeds budget.	$ 15,119
	DEFICIT CROWN CORPORATIONS AND AGENCIES Excess of interest expense over interest income for the year.	235,139
	TOTAL	**$ 250,258**
	P.E.I. DEVELOPMENT AGENCY	
715/86	MEAT PROCESSING INDUSTRY ASSISTANCE Forecasted losses are higher than anticipated for Garden Province Meats (1985) Inc.	$ 747,400
421/87	MEAT PROCESSING INDUSTRY ASSISTANCE Additional required for finalized losses at Garden Province Meats (1985) Inc.	29,681
	MARKETING ASSISTANCE Federal E.R.D.A. Marketing Agreement exceeded budgeted activity.	213,345
	TOTAL	**$ 990,426**
	GEORGETOWN SHIPYARDS INC.	
418/87	GEORGETOWN SHIPYARDS INC. - OPERATING DEFICIT To cover 1986/87 operating deficit.	$ 747,411
	TOTAL	**$ 747,411**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
518/86	COMMUNITY REHABILITATION SERVICES Adult Group Home "L" - Salaries for relocation of foster home placements.		$ 41,000
713/86	COMMUNITY REHABILITATION SERVICES Sheltered Workshops - Grant increases for existing program Sheltered Workshops - New Directions	$ 32,300 15,200	47,500
67/87	DEPARTMENTAL MANAGEMENT To cover costs associated with an out of court claim settlement.		31,000
	PHARMACY DIVISION Forecasted costs exceed original budget.		30,000
	CHILD AND FAMILY SERVICES Division management - Decision to cover deficit of Transition House Association.	$ 19,000	715,000
	Charlottetown Regional Office - To cover expenditures predicted to exceed budget in the Special Needs Program.	35,000	
	Welfare - Cash and Material Benefits Program. Expenditures predicted to exceed budget at following centres: O'Leary Regional Office Summerside Regional Office Charlottetown Regional Office Montague Regional Office Souris Regional Office	 32,000 270,000 244,000 40,000 75,000	
	AGING AND EXTENDED CARE Private nursing homes Increased the number of subsidized beds at Sunset Lodge.	$ 34,000	94,000
	Garden of the Gulf Home Predicted expenditures to exceed budget.	60,000	
	TOTAL		**$ 958,500**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	HOSPITAL SERVICES COMMISSION		
82/87	HOSPITAL SERVICES COMMISSION Additional appropriation to fund an advance made to the Queen Elizabeth Hospital.		$1,000,000
	TOTAL		**$1,000,000**
	HEALTH SERVICES COMMISSION		
68/87	PRACTITIONERS' FEES In province and out of province practitioners' fees are expected to surpass the budgeted amount.		$1,200,000
419/87	HEALTH SERVICES COMMISSION		
	1986/87 DEFICIT		230,734
	TOTAL		**$1,430,734**
	P.E.I. ENERGY CORPORATION		
427/86	JOB CREATION PROJECT To create a job project for the clearing of crown land:		$ 400,000
	Wages	$ 315,000	
	Materials and supplies	60,000	
	Professional services	15,000	
	Travel	10,000	
	TOTAL		**$ 400,000**
	DEPARTMENT OF JUSTICE AND THE ATTORNEY GENERAL		
519/86	REGISTRY OFFICES - SUMMERSIDE To repair registry books (not budgeted).		$ 7,500
	Salaries	$ 5,100	
	Travel	2,400	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
585/86	PROBATION AND FAMILY COURT SERVICES		$ 168,000
	To provide services to young offenders on an interim basis until proper facilities are in place (not budgeted).		
	Salaries	$138,000	
	Professional services	30,000	
615/86	ADMINISTRATION		12,900
	Out of court settlement relating to the official trustee (not budgeted).		
620/86	HUMAN RIGHTS COMMISSION		33,000
	Increase grant to cover costs of the Commission which have exceeded budget.		
25/87	ADMINISTRATION		50,000
	Legal - Professional services	$ 40,000	
	Coroner's Inquest - Professional services.	10,000	
	Professional services expenditures are forecast to exceed budget.		
	JUDICIAL		42,000
	Materials and supplies	$ 14,000	
	Professional services	23,000	
	Travel	5,000	
	Expenditures are forecast to exceed budget.		
	CORRECTIONS		49,000
	Prince County Jail - Materials and supplies	$ 32,000	
	Kings County Jail - Materials and supplies	17,000	
	Expenditures are forecast to exceed budget due to increased inmate population.		
	PROBATION AND FAMILY COURT SERVICES		21,000
	Young offenders cost of transportation is expected to exceed budget.		
69/87	ADMINISTRATION		80,900
	Legal professional fees for government cases are higher than anticipated.		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	CORRECTIONS		$ 292,600
	Sleepy Hollow - Materials and supplies	$ 23,100	
	Sleepy Hollow - Salaries	55,000	
	Prince County Jail - Salaries	100,000	
	Kings County Jail - Salaries	114,500	
	Increased costs above budget due to much higher inmate population.		
	PROBATION AND FAMILY COURT SERVICES		83,900
	Young offenders - Materials and supplies.	$ 30,100	
	Young offenders - Professional services.	28,300	
	Young offenders - Justice information system.	25,500	
	Increased costs beyond budget due to: (1) Increase in Nova Scotia per diem rate for young offenders services. (2) Extension of a federal project on a Justice information system. (3) Materials and supplies expenses associated with repairs to Summerside Youth Centre.		
	LEGAL AID		25,000
	Increased case load activity.		
	CONSUMER SERVICES		20,300
	Salary of administrator not budgeted for.		
	TOTAL		**$ 886,100**
	DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS		
520/86	BUILDINGS MAINTENANCE		$ 31,000
	Professional services	$ 24,500	
	Administration	5,500	
	Materials and supplies	1,000	
	Security and maintenance costs relating to the abandoned former Canada Packers plant.		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
72/87	CHARLOTTETOWN GARAGE		$ 517,000
	Materials and part	$ 316,000	
	Fuel	122,000	
	Repairs and maintenance	79,000	
	Mechanical branch budget is inadequate to meet the forecasted expenditures. Higher than anticipated costs due to the aged fleet of the Branch.		
466/87	CHARLOTTETOWN GARAGE		743,400
	Materials and supplies	$465,400	
	Salaries	278,000	
	SUMMERSIDE GARAGE		
	Materials and supplies		59,300
	HIGHWAYS MAINTENANCE		
	Snow removal		267,900
	Extra costs associated with snow removal due to severe winter.		
	TOTAL		**$1,618,600**
	GENERAL GOVERNMENT		
71/87	EMPLOYEE BENEFITS		$ 174,100
	To meet a predicted excess of expenditures over budget due to an increase in workers' compensation claims.		
	TOTAL		**$174,100**
	DEPARTMENT OF ENERGY AND FORESTRY - CAPITAL		
62/87	FORESTRY BRANCH - FIRE TRUCK		$ 9,900
	Shortage in budgeted amount to purchase new forest fire truck for the Souris area.		
	TOTAL		**$ 9,900**

PROVINCE OF PRINCE EDWARD ISLAND
APPROPRIATIONS

MARCH 31, 1987
LIST OF ESTIMATES NOT FULLY SPENT - BY DIVISION - OVER $50,000

	ESTIMATES	TRANSFERS	ADDITIONAL APPROPRIATIONS	NOT SPENT (OVER $50,000)
Department of Agriculture				
Marketing Services	$12,089,900	$(535,640)	$ -	$104,704
Extension Services	5,889,800	(328,000)	-	87,438
Sequestration	-	322,000	-	322,000
PEI Grain Elevators Corporation	756,600	-	-	132,687
General Education				
Financial Services	1,254,400	(4,100)	-	184,07
Educational Services	3,816,700	9,200	43,100	73,276
Elementary and Secondary Education	79,794,700	-	-	186,653
Department of Tourism and Parks				
Tourism Development	1,613,500	(19,010)	-	192,279
Tourism Marketing	2,238,400	16,520	-	90,436
Department of Industry				
Business Development	399,900	560,450	-	99,117
Industrial Development (Industrial Support-ERDA)	330,000	(77,550)	-	252,450
Community Economic Development	1,941,000	21,500	-	280,239
Sequestration	-	50,000	-	50,000
Hospital Services Commission	67,659,600	1,310,600	1,000,000	428,126

PROVINCE OF PRINCE EDWARD ISLAND
APPROPRIATIONS

MARCH 31, 1987
LIST OF ESTIMATES NOT FULLY SPENT - BY DIVISION - OVER $50,000

	ESTIMATES	TRANSFERS	ADDITIONAL APPROPRIATIONS	NOT SPENT (OVER $50,000)
Department of Energy and Forestry				
Energy and Mineral Branch	$9,928,000	$ (47,184)	$ -	$1,894,264
Forestry Branch	1,546,400	175,900	-	71,436
Forest Development Agreement	2,654,000	(544,500)	-	97,598
Sequestration	-	484,284	-	484,284
PEI Energy Corporation				
General	702,100	1,700	-	159,404
Job Creation Program	200,100	-	400,000	127,566
PEI Housing Corporation	2,779,100	17,800	-	447,296
Department of Transportation and Public Works				
Capital - Highways	27,832,000	(344,700)	-	2,698,366
Capital - Buildings	299,000	155,000	-	169,601
Sequestration - Capital (Highway Reconstruction)	-	200,000	-	200,000
PEI Crown Building Corporation	597,800	-	-	230,850
Auditor General	852,100	8,800	-	127,838
Debt Charges				
Interest	61,210,200	-	-	2,070,620
Sinking Fund Provision	8,063,400	-	-	155,225
Debenture Discount Amortization	480,000	-	-	88,819